THE EFFECTS OF THE FORECLOSURE CRISIS ON NEIGHBORHOODS IN CALIFORNIA'S CENTRAL VALLEY: CHALLENGES AND SOLUTIONS

FIELD HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

SEPTEMBER 6, 2008

Printed for the use of the Committee on Financial Services

Serial No. 110–136

U.S. GOVERNMENT PRINTING OFFICE

45–620 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

BARNEY FRANK, Massachusetts, *Chairman*

PAUL E. KANJORSKI, Pennsylvania
MAXINE WATERS, California
CAROLYN B. MALONEY, New York
LUIS V. GUTIERREZ, Illinois
NYDIA M. VELÁZQUEZ, New York
MELVIN L. WATT, North Carolina
GARY L. ACKERMAN, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
DENNIS MOORE, Kansas
MICHAEL E. CAPUANO, Massachusetts
RUBÉN HINOJOSA, Texas
WM. LACY CLAY, Missouri
CAROLYN MCCARTHY, New York
JOE BACA, California
STEPHEN F. LYNCH, Massachusetts
BRAD MILLER, North Carolina
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
MELISSA L. BEAN, Illinois
GWEN MOORE, Wisconsin,
LINCOLN DAVIS, Tennessee
PAUL W. HODES, New Hampshire
KEITH ELLISON, Minnesota
RON KLEIN, Florida
TIM MAHONEY, Florida
CHARLES WILSON, Ohio
ED PERLMUTTER, Colorado
CHRISTOPHER S. MURPHY, Connecticut
JOE DONNELLY, Indiana
BILL FOSTER, Illinois
ANDRÉ CARSON, Indiana
JACKIE SPEIER, California
DON CAZAYOUX, Louisiana
TRAVIS CHILDERS, Mississippi

SPENCER BACHUS, Alabama
DEBORAH PRYCE, Ohio
MICHAEL N. CASTLE, Delaware
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
RON PAUL, Texas
STEVEN C. LATOURETTE, Ohio
DONALD A. MANZULLO, Illinois
WALTER B. JONES, JR., North Carolina
JUDY BIGGERT, Illinois
CHRISTOPHER SHAYS, Connecticut
GARY G. MILLER, California
SHELLEY MOORE CAPITO, West Virginia
TOM FEENEY, Florida
JEB HENSARLING, Texas
SCOTT GARRETT, New Jersey
GINNY BROWN-WAITE, Florida
J. GRESHAM BARRETT, South Carolina
JIM GERLACH, Pennsylvania
STEVAN PEARCE, New Mexico
RANDY NEUGEBAUER, Texas
TOM PRICE, Georgia
GEOFF DAVIS, Kentucky
PATRICK T. MCHENRY, North Carolina
JOHN CAMPBELL, California
ADAM PUTNAM, Florida
MICHELE BACHMANN, Minnesota
PETER J. ROSKAM, Illinois
KENNY MARCHANT, Texas
THADDEUS G. McCOTTER, Michigan
KEVIN McCARTHY, California
DEAN HELLER, Nevada

JEANNE M. ROSLANOWICK, *Staff Director and Chief Counsel*

CONTENTS

WITNESSES

Saturday, September 6, 2008

APPENDIX

Additional Material Submitted for the Record

THE EFFECTS OF THE FORECLOSURE CRISIS ON NEIGHBORHOODS IN CALIFORNIA'S CENTRAL VALLEY: CHALLENGES AND SOLUTIONS

Saturday, September 6, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 12 p.m., in the Stockton Arena, 248 West Fremont Street, Stockton, California, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank and Speier.

Also present: Representatives Cardoza and McNerney.

The CHAIRMAN. This hearing of the Committee on Financial Services on the question of the foreclosure crisis will now come to order.

I apologize for the delay in starting the hearing, and I appreciate your coming here. Some of you probably know—all of you probably know—that the Federal Government is about to make some very drastic moves regarding Fannie Mae and Freddie Mac, and I had to deal with some of the media about that. So the delay was my fault, and I apologize.

This hearing has been called at the request of our host, Member of Congress Jerry McNerney, strongly supported by his neighbor, and our colleague, Dennis Cardoza, because for a variety of reasons, none the fault of individuals, just because of economic circumstance, this area, as you all know, has been hurt worse by the foreclosure crisis than almost any other place in the country.

The hearing has several purposes. First, particularly with some of the officials we have here from both the State and the municipalities, to make the point that when we think about trying to diminish foreclosures, we aren't simply trying to help individuals, although that shouldn't be considered a bad thing.

But the foreclosure crisis, particularly when it takes on the dimensions it has taken on here, becomes a problem for more than just the individual. It hurts the neighborhoods. It hurts the cities. It hurts the whole economy. The foreclosure crisis is the single biggest cause of the economic problems we are facing.

Second, we passed legislation which offers to those who hold the loans—the servicers, the lenders, the banks—an opportunity to help us avoid foreclosure, but, by law, that is voluntary because we could not simply abrogate existing contracts.

One message we want those who hold the loans to get is this: If you tell us that you cannot cooperate with public authorities, advocacy groups and others, in diminishing the number of foreclosures—no one thinks we can get rid of all of them—if you tell us that you can't do that because existing law ties your hands, then I guarantee you that law will look very different next year.

So if people in the lending industry want to avoid some very severe, much more restrictive legislation, I think it would be in their interest to cooperate with us. Not out of a sense of vindictiveness, but we will be listening. If they say, look, we would like to help but we can't, because of the way the law is, then it is our job to change the law.

I am very appreciative to my colleagues from California, and we have also been joined by another Californian who is a member of our committee, Congresswoman Jackie Speier, and we look forward to the testimony and I can guarantee you that what we hear today—this hearing is actually a forerunner of a hearing we will have in Washington, in which a similar set of witnesses will be called, including a lot of the people from the lending industry.

And on that, I want to say that I am disappointed that we don't have better representation from those other servicers. Many of them chose not to come and that is a bad sign. We invited people; we urged them to come; my colleagues tried to get them to come; Dennis Cardoza did.

I just want to say to those—and we will have another hearing. I want to say to those who are in the business of servicing the loans and making the decisions, if you do not have the time to come talk to us now as we deal with this, don't be surprised if we don't have the time to talk to you next year when we are passing new legislation. There has to be some reciprocity here. So, with that, I want to thank my California colleagues and their staff who did the work.

I will tell you, one of the great bargains the American taxpayer gets, without being fully aware of it, is the congressional staff. There are people who work for all of us, in our individual capacities in the committee, almost all of whom could be making more money, with a lot less aggravation, in other contexts. The aggravation comes from two sources, by the way—us and you.

So I am very grateful to them for the excellent job they have done in making this possible, and I now call on my colleague, who is the major force behind this hearing, Jerry McNerney.

Mr. McNerney. Thank you, Mr. Chairman. First of all, I want to welcome the witnesses and thank them for participating. I want to welcome everyone here that is going to be listening to this hearing.

I especially want to thank the chairman for coming all the way here from Massachusetts, specifically because this area is impacted so hard by the foreclosure crisis.

It is an opportunity for the chairman to see exactly what people in this area are thinking, what some of the solutions people have in mind are, so that we can discuss those, so that we can get a fair hearing, and so we can move toward whatever solutions might be appropriate in this case.

I want to echo the chairman's comments. We passed a bill, the President even signed it in July, it is a good bill, and it offers a lot of opportunity for people who are in distressed properties to take advantage of what is being offered now. It is going to get worse before it gets better.

We don't want to have to move toward more draconian measures in January. So there is an opportunity, right now, please take advantage of it, talk to your lenders, find out what the problem is, work with your Members of Congress, we can help you, but this is a good offer.

I want to thank Mr. Cardoza for working with me to make this happen. I want to thank Congresswoman Jackie Speier, a member of the committee, for coming out here and helping with our hearing today.

Growth in the Central Valley exploded in recent years, thanks to readily available credit and home prices that were a complete bargain compared to nearby Bay area properties.

As we know, the housing market collapse, coupled with an economic downturn, has had a devastating impact on families and homeowners throughout the region, particularly here in Stockton. More and more people are receiving notices of foreclosures, and families, the very foundation of our communities have been shaken, and are struggling to keep up their homes.

In California, foreclosures have surged to a 20-year high; tens of thousands more people in the State have completely lost their homes. In addition to cornerstone property housing, Fannie Mae and Freddie Mac have recorded losses topping $100 billion.

We know from the news this morning that there is a potential Government intervention in this problem. So the crisis is real, it is here, we are at the epicenter of it. Right here, in San Joaquin County, we have registered that an estimated 1 out of every 30 homes is experiencing distress or foreclosure.

From month to month, Stockton has occasionally risen to the top of the foreclosure list throughout the country. So we know that we are in one of the hardest-hit areas. But our City, Stockton, is a jewel and we will continue to expand businesses and homeownership here, and we will remind everyone that Stockton remains an all-American city, and with dedication and hard work, we will recover.

However, for the time being, we continue to grapple with this problem of foreclosures, and the instability created both in our neighborhoods and in the financial markets.

We all know that when houses are foreclosed, everybody loses—the house becomes more prone to crime, and attracts problems. It also is a burden on our local cities and communities. So we want to do everything we can to avoid additional foreclosures.

Dennis Cardoza and I have held foreclosure workshops throughout the valley, and throughout my district, to help put people in distressed properties in contact with advisers, with lenders, to give them the best information they can and to give them an opportunity to stay in their homes.

We are going to continue to do that and I hope that those workshops have been helpful, and if they are, again, we will continue to do those.

So I hope that this hearing today does shed some light on the problem, again showing us what some of the particular issues are facing our region, so that in Washington we can address those problems.

I want to again thank the witnesses for coming. I know it is a Saturday, that it is a difficulty, and it is intimidating to testify in front of a congressional committee, but we are really here to learn from you, so I hope that you are open and honest with us, and we will go ahead and use your testimony. Thank you very much.

I yield back.

The CHAIRMAN. Thank you. Next, a member of the committee, Congresswoman Jackie Speier. We are particularly grateful to her for coming. Under House rules, two members of a committee are necessary for it to be an official hearing, and Congresswoman Speier has an interest in this and has been very active as a member, and her presence is really essential.

Ms. Speier.

Ms. SPEIER. Thank you, Mr. Chairman, and thank you for holding this hearing, and to my two colleagues, Congressmen Cardoza and McNerney, thank you for representing your district as you do.

I am going to resist the temptation to try and do an autopsy of why we are here, and just speak, very briefly, on a couple of things.

One is that those who have violated the law, either by encouraging consumers to misrepresent themselves on applications, appraisers who did not do appropriate appraisals, banks that turned their eyes—all of those individuals, in my view, need to be held accountable, and I believe we should encourage local DAs and U.S. attorneys, and attorneys general, to act to change what has been for most of the months that have passed, a situation where no one has been held accountable. I think all of us have to be held accountable.

And I would echo the chairman's comments, that it is not just the foreclosed property that is injured. It is the neighborhood, it is the community, it is the State.

The lower property taxes means that the education in California is going to be reduced. We are now 46th in the Nation in what we spend per pupil on education, and we will drop to the bottom, and be more like a Third World country in the kind of education system we are providing to our kids, if we don't fix this.

So I think as we come up with fixes, which will include the financial institutions cooperating fully, and in my own district I have had many constituents who have indicated that they are getting no cooperation from their particular banks, they must, in my view, cooperate fully, and then we all need to recognize that any appreciation in these home values, to the extent that the Federal Government comes in, or the State government comes in to help sustain these loans, that we would all benefit as taxpayers in the appreciation.

So I yield back my time, and thank, again, the chairman, for hosting this.

The CHAIRMAN. Thank you. And then finally, one of the members who was most instrumental in having this hearing, and I will tell you also, by the way, you should know with regard to the FHA, Fannie Mae, and Freddie Mac, all of which have become even more

important in terms of what housing finance we can now get, a year ago, all of those entities had limits on the amount of loans they could deal with. That pretty much put people here out of business, and no one was a more ardent advocate than Representative Cardoza in those loan limits being raised to take account of the fact that house prices are variable and that a price that prevents you from financing luxury housing in Nebraska not only prevents you from financing luxury housing in California, it prevents you from financing dog houses in California.

And thanks to Representative Cardoza, we didn't get everything we wanted, but there were significant increases in those which means that going forward, as we being to work our way out of this—I notice Secretary Peters is here, she was a very powerful witness when she testified on specifically this issue, became a bipartisan issue. And you will find, going forward, that many of you will be able to get some help that you might not otherwise have gotten, and Representative Cardoza was a major force in that.

Representative Cardoza.

Mr. CARDOZA. Thank you, Chairman Frank. I very much appreciate you agreeing to do this hearing today, and I want to thank you for your leadership in the housing crisis.

I sit on the leadership team in the House, these days, and I have been a front seat witness to what Chairman Frank has done on a daily basis, and the frustration that he has had to overcome in dealing with the other body, dealing with some other folks who didn't want to agree.

You know, all of your hard work and attention to this issue is so critical to my constituents, 17 percent of whom are Portuguese. Mr. Frank represents the largest Portuguese-American population in the country, bigger than this one, so he—

The CHAIRMAN. [In Portuguese]

Mr. CARDOZA. Congressman Costa and I say he is more Portuguese than we are sometimes.

On a more serious note, though, I want to talk about the fact that Congressman McNerney and I, in this room, had over 500 citizens at our first Workout Conference, and we have had, I think, 10 to 15 since then. Assemblywoman Galgiani has done the same. Mr. McNerney has gone on to do others.

In fact, they used the model that we started, right here in this room in Stockton, to take across the country, and Members of Congress have been doing it for their constituents all over the country.

When Congressman McNerney and I requested this hearing, we didn't know that Fannie and Freddie were going to be in the situation that they are today, and that it would be so timely that we were having this meeting. But we took a tour before we came here, and you can see the devastation inside the community.

When we came here, and we talked to the individuals, you see the devastation in the families. You see the individuals who are grieving. One lady sat about where Mayor Wooten is sitting right now. She was facing the other direction. She was telling me that she is 86 years old. She got a call one evening while she was watching Jeopardy, where the caller asked, "How long has it been since you have seen your children?" She said, "Well, I do have chil-

dren on the East Coast." The caller then said, "Well, you know, your house is worth $200,000."

This lady was on Social Security, she later testified, making $960 a month. The caller told her that she qualified for a loan up to $200,000. And, in fact, if she would just sign up tomorrow when she came down, they would give her a $200,000 loan on her house.

She said her house was totally paid off. She was happy. She wasn't bothering anybody. But she was convinced that this was almost like free money. She went down. She applied for the loan. She got the loan. Her payments were $260 a month. She figured she could do that for probably most of the rest of her life on the money that she had in the bank. Well, one thing and another happened, and 6 months later, it reset, and she was paying $1,500 a month on a $900 a month Social Security check, something to that degree.

And so she was coming to us, trying to figure out how she could work out of it. She had prepayment penalties she was going to be stuck with. There were just a number of things.

Now I am totally off the script that my staff has written for me for today, but as I sit here, it is just compelling to me to look out, and think about those individual cases.

Sometimes people say, they should have known better, or they should have read the documents. Well, 53 percent of my population is Hispanic. A lot of them have limited speaking capability. English is not a first language. We have a lot of challenges.

I don't read all of those documents. I am a former Realtor. I know which ones I need to read and which ones are just boilerplate. But those folks who aren't as sophisticated, aren't Members of Congress, do not have a college education, are much more challenged in that process.

And if they came up with folks, they got involved with folks who were less scrupulous, or even if they were, if they had a good Realtor, if they had a good mortgage banker, a lot of times it was what everybody was doing. They were refinancing. Everyone thought that this was the new normal, that housing prices were this cost and some people jumped in, thinking that if they didn't get in right now, that they would be out of luck.

And so it is devastating when you see the individual, it is devastating when you see a community, and it is devastating to know that up to 25 percent of my district is facing—either has been foreclosed on, is currently undergoing foreclosure, or could be foreclosed on by next July. Because that is what we see going forward, doing extrapolations based on data that my staff can provide you with, that I had in my testimony but I won't go into right now.

Mr. Chairman, you know that if 25 percent of any community would have been devastated at one time, we would have been voting to send in the National Guard and voting disaster assistance. But because it happened over a period of time, it is much like that old adage, that if you throw a frog into a pot of boiling water he immediately jumps out.

But if you put a frog in a pot of cold water and turn up the heat, he will sit there and cook. And that is what is happening to our district right now. We have some devastating consequences, and it has gradually come upon us, but it doesn't make the devastation

any less of a problem for those individuals who are being affected by it.

So I am very grateful, and I know Congressman McNerney is also grateful that you are here.

I am going to be quiet now and let you get to the testimony, but thank you, and I appreciate what you have done for us.

The CHAIRMAN. Thank you. We will begin our testimony with State Senator Michael Machado.

Without objection, any documents or complete written remarks that any of the witnesses wish to insert in the record, we will accept, and if there are people in the audience who would like to put something in—let me say this. If, after listening, there is something that occurs to you that you would like to send in, Gail Laster, who is here, is the deputy chief counsel of our committee, we will give you an address and you can send us material for up to a week from today, and it will be incorporated into the record.

The CHAIRMAN. Senator.

STATEMENT OF THE HONORABLE MICHAEL MACHADO, CALIFORNIA STATE SENATOR, 5TH DISTRICT

Mr. MACHADO. Thank you very much, Mr. Chairman, and members of the House Financial Services Committee. Thank you for inviting me today, and welcome to California's Central Valley, Chairman Frank, supplier of America's fresh fruits and vegetables.

The Central Valley—to put in context my remarks, I will give a brief description of the Central Valley. It is predominantly an agricultural region, with predominantly blue collar jobs; the median income in the Central Valley is about $51,000 compared to a statewide median income of $56,000, and over the past several years, the valley has experienced unprecedented urban growth, extending into the foothills of the Sierras.

Rising home prices and seemingly low-cost mortgages attracted local buyers upgrading to larger homes, or first-time home buyers who were formerly renters, as well as attracting those migrating from the Bay Area in service of larger homes and larger lots.

As has been mentioned, the Central Valley has been for foreclosures in both California and the Nation. In California, 1 in every 182 households is in foreclosure. In the Central Valley, it is higher; 1 in 73 in Merced, and 1 in every 82 in Stockton and Modesto, and these cities rank, two, three and four, nationally, and at times have ranked number 1, nationally.

My written testimony which I have submitted to the committee summarizes the reasons I believe the Central Valley has been so hard hit.

What I would like to talk today about is what we have done at a State level to try to address the problem. I would also like to talk about what we purposely haven't done. I believe inappropriate action by government can be more harmful than helpful, and something I will focus on throughout the remainder of my testimony.

The provisions of recently-enacted House Resolution 3221 will have a positive impact in the Central Valley communities, going forward. However, I believe that the actions of the local lenders and our State legislature are more likely to have a greater near-term impact on homeowners.

The California Senate Banking, Finance and Insurance Committee, which I have chaired after a great teacher in the former chairwoman, Jackie Speier, since 2006, was the first State committee in the Nation to hold a hearing on the Federal interagency guidance in nontraditional mortgage product risk in January of 2007.

We subsequently held four hearings on subprime lending and foreclosure avoidance in both 2007 and 2008, and our participants included the Federal Reserve Board, FDIC, CSBS, State agencies, academics, and a variety of industry and consumer groups.

And during that time I have also participated in five town hall forums, including one with Treasury Secretary Henry Paulson, here in Stockton.

We learned about inappropriate activity by appraisers in collusion with real estate brokers to artificially set the value of homes, to be able to qualify for 100 percent financing; about actions of real estate brokers who also acted as mortgage brokers in the same transaction. These activities were taking advantage of unsophisticated buyers, and putting them in loans they could not afford.

We introduced several pieces of legislation. The first one that became operative in 2007, prohibited improperly influencing an appraiser in connection with a mortgage loan transaction. This is similar to appraisal provisions of Regulation Z, which will not become effective until October of 2009. California enacted this in October of 2007.

I also introduced and had passed SB 385, which was enacted in 2007. It extended the Federal nontraditional and subprime lending guidance to State-regulated lenders and brokers.

This was important because it leveled the playing field and prevented regulatory arbitrage among the regulated entities. Uneven application of rules regarding lending practices encourages regulatory arbitrage, a practice in which leaders choose their regulator in order to minimize the amount of regulatory oversight with which they are subject.

Now, something I want to emphasize: There is a great risk, in California, of enacting laws that apply unequally to State and Federal lenders. Not only will the State drive lenders to Federal regulators and impose fewer restrictions on lending practices, but we will also send a message to secondary markets that there will be uncertainty with respect to their investments.

I believe we should also avoid legislatively modifying existing mortgage contracts that can send additional signals of uncertainty to an investor market, causing interest rates to rise and limiting access to capital.

Capricious action by well-meaning States, particularly by a State as large as California, can drive up liquidity, limiting capital available for mortgages, and a prime example of that is New York, where Fannie Mae and Freddie Mac refused to purchase loans that fall under New York's new subprime lending law.

In the past year, I have authored legislation that is now at the Governor's desk, dealing with mortgage practices within the jurisdiction of the State. One of the primary examples was 1137, which requires lenders to communicate with borrowers before a notice of default can be issued.

This requires not only a notification, but an actual contact, and documented contact by the lenders with the borrowers. Oftentimes, people receive notices in the mail and they fail to acknowledge them; 1137 requires that before a notice of default can be filed, they would engage in actual conversation.

We have also reformed brokering practice in California with greater accountability, and our informational hearings encourage action by our State regulators, in part due to our August meetings, where they initiated a partnership with State-licensed lenders who agreed to work with borrowers having trouble with affording their loans.

This will also urge the Department of Corporations to collect information from our State, and from licensing people, and this was well before HOPE NOW was rolled out.

But I don't believe we are past the worst of our foreclosures. Individual neighborhoods, local governments, and State governments are going to continue to suffer the effects of crisis for more years.

In the Central Valley, we expect to see another 2 years pass before housing prices hit bottom again, and begin to recover. And this is because in this area we have stagnant incomes, rising household costs, including gas, and additional exotic loan products such as payment option loans which will require fully amortized payments that are going to be coming due.

The general state of the economy combined with the impact of declining retail sales will put additional pressures on traditional mortgage households because of reduced hours and job loss, and this is an expansion of the foreclosure from the exotic loan products.

I believe foreclosure should be the last resort, but the industry right now has simply been unable, and at times unwilling, to meet the demands for loan modifications and forbearance.

Without greater forbearance by the lending industry for problem loans, I believe there is little the Federal Government or the State can do with unaffordable loans.

At the margin, I believe, as we continue forward, there will be some that will be helped, but in general, I think that the true observation is that the market will have to absorb the shock, reset and then go forward.

I think we risk creating a moral hazard with government intervention to save those who would otherwise lose their homes, but rewarding risky behavior can only perpetuate the problem. Both the Federal Government and the States, I believe, should focus, in the short term, on ensuring that the legislation we have already enacted is implemented in a way that maximizes effectiveness.

There needs to be continued accountability and oversight of lenders and the financial industry. We cannot allow ourselves to be inundated with products that neither lenders, nor borrowers, nor regulators, fully understood, which I think was the case of what happened with the exotic loan products of the past several years.

We must continue to enforce lending and brokering practices that are fair to consumers and that provide transparency.

But I want to emphasize that in doing this, this also creates a very uncomfortable paradox, and that is with increased scrutiny of mortgage market to protect borrowers, access to mortgages for tra-

ditional housing will become more limited and the dream for homeownership for many will just remain that—a dream.

Again, thank you for the opportunity to testify, and thank you for being here today.

[The prepared statement of State Senator Machado can be found on page 86 of the appendix.]

The CHAIRMAN. Our next witness is the Honorable Ellie Wooten, the Mayor of Merced.

Madam Mayor.

STATEMENT OF THE HONORABLE ELLIE WOOTEN, MAYOR, MERCED, CALIFORNIA

Ms. WOOTEN. Thank you, and thank you for allowing me to be here.

Depending on the month, Merced County is either 1, 2, or 3, leading in the foreclosure rates, and this has continued for a long time. I have had calls from television people as far away as Japan. I have been followed around by a reporter from The New York Times, and I don't know how many calls I have had from TV or reporters, all because we are leading in this foreclosure rate.

In August of 2006, the president of the Merced County Association of Realtors stated that 80 percent of the buyers in our area were speculators and they were coming in, many of them attracted by the opening of the UC campus. Speculators created the high per capita foreclosure rate, but when you add that to the subprime mortgage mess, the bad economy, and the foreclosure crisis, it compounded the situation for the local home buyers.

More than a year ago, Merced took a proactive stance to try to help. We held workshops. We worked with our assembly people. I believe we have tried to work with Congressman Cardoza as much as possible. However, we have no real reason to think that this situation is going to be corrected immediately.

Last year, the county assessor recorded 112 foreclosures in Merced County. As of July of this year, 524 were recorded, bringing the total of foreclosures for the year, to date, to 2,185; 1 in 20 homes in Merced County are in foreclosure.

In the second quarter of the year, loan default notices were sent out to 1,900 homes. That means nearly 1 in 10 homes in Merced County is in foreclosure or very near to it.

The research firm, First American CoreLogic said that its statistics show that 15 percent of Merced County mortgages are delinquent by 90 days or more. The delinquency rate for the property taxes in Merced County is 8.3 percent this year. Last year it was 5 percent.

Because of the foreclosures, approximately 1 in 12 Merced County land owners are unable to pay their property taxes. There is $20.4 million in property taxes past due. That is a little more than 8 percent of the total amount the county expected to collect. The county had to borrow $5 million to meet their Teeter Plan program, the obligations to transfer property tax collections to school districts, cities, and other agencies. And this was after the county went through their $13.7 million reserve.

Due to the decrease in property values, 21,000 property owners will see their tax bills reduce this year. Assessed property values

dropped 2.4 percent over the last year. Last year, only 6,500 people saw their property taxes reduced.

Foreclosures and the housing crisis have affected the CDF funds, or Mello-Roos. It is the same thing. We have frozen the positions of two firefighters, three police officers and two police dispatchers. They were all funded by CFDS funds. The economic slowdown and housing slump resulted in another 13 positions frozen in the City.

The number of houses that received warnings to clean up overgrown yards—and I'm sure you have all seen the yellow lawns, and nuisances—was 3,758. This is almost double the number in 2006. The cost of the City weed abatement program doubled from $30,000 to $60,000. The increase is largely due to foreclosures.

Calls to our code enforcement officers have increased, largely due to abandoned property calls. The City attorney's office is working on a plan that would track properties before they become neglected, and work with the lenders to maintain them, if at all possible.

The council regularly receives complaints from the public about abandoned homes in their neighborhoods. The foreclosure crisis has had a ripple effect throughout our local economy, and some examples are BMC-West, a company that has been in Merced for 21 years. Due to the lack of construction, they have left Merced.

Unemployment in Merced is double the national average at 11 percent. In March, it peaked at 13.6 percent. Unemployed construction workers, along with title company employees, and other people in the housing field helped that number balloon.

The development of Merced Passeo LLC took out a $9 million loan from County Bank in 2007. The developer now estimates the project has lost 90 percent of its value. County Bank, which has said the foreclosure crisis has affected business, has laid off 20 employees, just last Wednesday. It posted a fourth quarter loss of $14.2 million.

We had to call the surety bonds on two developments in order to get the necessary infrastructure improvements completed. In one case, the developer buried an existing bike path before going out of business.

There is one bright side to the foreclosure crisis. Currently, 48.6 percent of the residents of Merced can afford a house. The median home in 2006 as $376,000. Today, it is now $155,000. But that also means the property values of most Merced residents has also dropped.

The new Federal housing laws cannot address all of our problems but it will help more affordable housing in Merced. The new laws will bring stability to the mortgage market and help the community climb out of the financial hole they are in and try to reclaim the American Dream of truly owning a home and not see the bank repossessing a home.

I will bring to your attention the article in The New York Times, "Ruins of an America Dream," and it begins with Merced County. Thank you.

[The prepared statement of Mayor Wooten can be found on page 127 of the appendix.]

The CHAIRMAN. Thank you, Mayor, and your Congressman reminds me that the letter you gave us was very helpful and we appreciate that.

Next, we will hear from the Honorable Steven Gutierrez, a supervisor of San Joaquin County.

STATEMENT OF THE HONORABLE STEVEN GUTIERREZ, SUPERVISOR, SAN JOAQUIN COUNTY BOARD OF SUPERVISORS

Mr. GUTIERREZ. Thank you, Mr. Chairman, for this opportunity. We welcome you on behalf of the San Joaquin Board of Supervisors to San Joaquin County.

I apologize that it is under these difficult times that we bring you here. But nevertheless, we hope that you will return and enjoy this all-American city.

The CHAIRMAN. I never get to go anywhere where there is nice—

Mr. GUTIERREZ. We apologize for that.

The CHAIRMAN. I am in the grief business. I understand that.

[Laughter]

Mr. GUTIERREZ. If you stick around a little longer, we will take care of you. I want you to know that.

Congressman Cardoza, we thank you very much for your leadership in making this happen today. On behalf of all of my colleagues, we appreciate your hard work, as well as the work that you have done in the past as our Representative.

Jerry, Congressman McNerney, again thank you very much for making this happen. It is a very difficult time for us in San Joaquin County, for many of our families, many of our children, many of our young people who are living in uncertain times.

Congresswoman Speier, it is nice to see you back again.

Mr. Chairman, members of the committee, I would like to begin by thanking you for this opportunity to discuss the impacts of the recent foreclosures crisis in San Joaquin County. My name is Steve Gutierrez, and I have served as a member of the San Joaquin County Board of Supervisors for 12 years. Never in this time have I witnessed a crisis of this magnitude, of the current mortgage foreclosure crisis.

Foreclosures impact families. The loss of a home and the subsequent uprooting of families is devastating. Foreclosures impact neighborhoods. A foreclosed home impacts neighborhood property, values, and invites crime, drug, and gang activity.

Foreclosures impact communities, resulting in a reduction of the property tax base and an increased need for services such as law enforcement, counseling, and homeless assistance.

The foreclosure crisis began a couple of years ago with a huge wave of resets in the subprime market. It has been the failure of these loans, coupled with decreasing home values, which has been responsible for much of the recent turmoil in our housing market.

Mr. Chairman, my statement and my comments are submitted, as appropriate, for the record.

I would like to focus on San Joaquin County. Here, in San Joaquin County, since January 2007, there have been more than 12,000 foreclosures. Let me repeat that: More than 12,000 foreclosures in San Joaquin County; 2,850 foreclosures in my district alone. This is a significant increase in foreclosures when compared to historical levels.

As you can see by the chart up here before you, and in my submittal, foreclosure activity in San Joaquin County is on the increase, and there is no relief in sight.

In these times of declining revenues and increased demand for services, counties and cities are taking steps to mitigate the damages from foreclosures. But Mr. Chairman, we can't do it alone.

For example, in 2007, county property tax revenues decreased by approximately 2 percent, or $4 million. It is estimated that county property tax revenues in the next year will decrease another 6 percent, approximately $13 million.

In this light, the Federal Government has an important role in assisting counties, and assisting in saving our neighborhoods.

The Housing and Economic Recovery Act of 2008, a $300 billion Federal Government initiative, was signed into legislation to assist 400,000 homeowners facing foreclosure, and extends the life of the Fannie Mae and Freddie Mac secondary market loan purchasers.

Initiative programs will begin October 1, 2008, and sunset September 30, 2011. Key provisions of this legislation are that it: Provides $4 billion in block grants directly to communities hit hardest by foreclosures; provides $180 million for pre-foreclosure counseling; develops an FHA refinance program for homeowners with problematic subprime loans; reforms FHA, the government insurer of loans, to make homeownership more accessible in the high-cost areas; requires a 3.5 percent downpayment and requires new homeowner counseling; establishes a $7,500 First-Time Home Buyer Tax Credit; provides for foreclosure protection for active duty soldiers and veterans; requires new mortgage disclosures; provides increased Low Income Housing Tax Credits to States; and establishes a new independent regulator for Fannie Mae and Freddie Mac.

However, it remains to be seen what effect the Housing and Economic Recovery Act of 2008 will have on the mortgage foreclosure crisis. Certainly it is a step in the right direction. However, some feel that the legislation may be too little, too late, because potentially, 2.5 million homeowners could be facing foreclosure in 2008.

And what about the hundreds of thousands of households who have already lost their homes to foreclosure? Some feel the legislation is inadequate and has several shortcomings.

The delay from enactment and planned implementation is too long. Many will have lost their homes to foreclosure in the interim. There should have been a moratorium on foreclosures.

The legislation should have included a provision that allowed bankruptcy courts to modify mortgage loan terms on primary residences, which would have prevented hundreds of thousands of foreclosures.

Four billion of block grants hit hardest by the foreclosure crisis is a drop in the bucket when compared to the actual need.

Off the top, $1/4$ of the grant value is required to be allocated proportionately, $1/50$ to each State. The question is: Is the problem proportionate?

Lenders participation is voluntary. They have to agree to reduce loan amounts to 90 percent of the current home value. What happens if they don't agree? There seems to be a good market for the sale of foreclosed properties right now.

There is no acknowledgement of the difficulty borrowers have finding the holder of their loan, and no remedy for this in the legislation.

Only those homeowners without secondary debt on their homes, and whose revised house payment does not exceed 31 percent of the homeowner's monthly income can participate in the refinance program.

Gentlemen, Ms. Speier, the Housing and Economic Recovery Act of 2008 is a good first step in addressing the foreclosure crisis. Please don't let this be the final step. Don't let this crisis continue to devastate our families, our neighborhoods, and our communities.

Mr. Chairman, this concludes my testimony, but I would like to just add one more item. I spent 2 years working with gang members in the City of Stockton at a particular high school, and one family itself is experiencing this problem directly. The father has turned to drinking. The son is turning around, running around with gangs again. The siblings are following in the footsteps of the older sibling. And the husband is now beating his wife.

This situation is affecting families in a tremendous way, and with the diminishing returns in our property tax revenue and our general fund dollars, our county is not able to keep up with the need. Social services are overwhelmed. The City of Stockton is having huge challenges.

This is—I hate to use the same analogy—but truly is another perfect storm. I don't know how much more the County of San Joaquin and the citizens of the County of San Joaquin can take.

Thank you very much for your time, and I submit all the documents as well as the maps for the record. There is also a map there of all the dots that you could see in San Joaquin County, of all the foreclosures, and if you look at the map behind it, it is practically all red. Thank you, Mr. Chairman.

[The prepared statement of Mr. Gutierrez can be found on page 83 of the appendix.]

The CHAIRMAN. I mentioned a return witness for us—who did a very useful job when we were dealing with loan limits—Heather Peters, the deputy secretary for business regulation and housing, of the Business, Transportation and Housing Agency of the State of California.

Thank you, Ms. Peters.

STATEMENT OF HEATHER PETERS, DEPUTY SECRETARY FOR BUSINESS REGULATION AND HOUSING, BUSINESS, TRANSPORTATION AND HOUSING AGENCY, STATE OF CALIFORNIA

Ms. PETERS. Thank you, Chairman Frank.

Good morning, members of the committee. I want to start off by thanking you all for coming here today. I know this is not an easy trip for you to make, and it is very important for you to see, firsthand, what is going on in California as well as what is going on here in Stockton. So thank you for making that effort.

In my role as deputy secretary, I oversee all the departments that regulate real estate appraisals, financial institutions, and corporations, as well as the Housing Community Development Department, and I sit on the board of the CalHFA, California Home Bank

for Low and Moderate Income Lending. I also chair the Governor's Task Force on Nontraditional Mortgages.

In all those roles, I have had the great opportunity to testify, not only before this committee on two prior occasions, but also to work with Senator Machado, my fellow panelist here this morning, and I can't thank both the chairman and Senator Machado enough for the work they have done, and the leadership they have exhibited in passing legislation that has been long overdue.

There is no silver bullet. I have been asked here to comment on the State's response to the foreclosure crisis, collaborative initiatives that are underway, future predictions for the housing market, mitigation of community destabilization, and benefits of the new Federal housing law, in 5 minutes or less. So I will do my best.

But I want to draw your attention to the fact that I have submitted written testimony, and as part of that testimony there are a number of color slides that give you a great deal of detail about the current situation of the California housing market, and I have brought with me a 100 copies for the public to take home with them as well.

There is no silver bullet. This is a multifaceted problem and we need multifaceted solutions. I started my job 2 days before Senator Machado had his first hearing on this subject, and we certainly hit the ground running.

We created the Governor's Task Force on Nontraditional Mortgages in early 2007. We have been working together collaboratively with not only the State legislature, but also local stakeholders, lenders, and servicers, as well as our Federal counterparts. The Governor and myself have met with President Bush, the Secretary of HUD, the Commissioner of HA, the Chairwoman of the FDIC, the Secretary of the Treasury, and also have worked with the National Governors Association on this problem.

We have needed that breadth of experience and expertise to address this. As Senator Machado mentioned, thanks to his bill, we were able to enact emergency regulations in California in 2007, to implement the Federal guidance and the subprime statement on lending in to California's regulatory structure at the Department of Corporations and the Department of Real Estate. So that in California now, it is an actual regulatory violation to make a loan without taking into account a borrower's ability to repay that loan.

Part of those regulations was also to implement a new disclosure form, because as Mr. Cardoza had mentioned, nobody reads those papers. I am a lawyer by trade, a real estate investor and a real estate broker, and when I get the papers, I don't read them, I just flip to the page where it says, what's my payment, just like everybody else in America.

Our new form in California is a very simple grid that discloses 3 days after the application, when you still have time to shop around, what not only the teaser rate payment is, but what the worst-case scenario payment would be if the interest rate adjusted to its full maximum.

That disclosure is made not only on the loan that the broker wants to sell to the consumer, that makes the broker the most money, but also all other available loans that borrower may qualify for.

It also goes and does the math on what the borrower's income is under each of those payments, and lets them know that in a worst-case scenario, this is what you're going to have left to live off of, if you take out this loan.

We are very proud of that. We have also signed a great deal of legislation, some of which the senator has commented on. We have additionally made it a crime in California to tie an appraiser's income to his or her valuation of a property. We have, as the senator mentioned, required lenders to attempt to contact borrowers before a default notice is filed.

We have a $1,000 a day fine for holders of REO properties who do not maintain those properties, and we require 60 days notice before an REO holder can evict a tenant in the property.

Additionally, as the Chair mentioned, I have worked tirelessly, and the Governor has personally lobbied on behalf of California for the Federal Housing Bill. Many provisions of the Federal Housing Bill, it's a good bill, we are happy it has passed, in particular the loan limits which I had the opportunity to testify on previously.

We have spent a good deal of time and money on education in California. We have made $1.16 million in CDBG grant counseling available. We have received $8 million in Federal stimulus money to fund counseling in California and we also expect more under the new housing bill.

We have launched a $1.2 million ad campaign at the Governor's urging, to educate people to the fact that there are options to foreclosures, that it's not a done deal, and they need to work with their lenders. We have also partnered with the HOPE NOW Initiative, and I had the honor of speaking with the Secretary of HUD, right here, at the homeownership event.

By way of stimulus, we have received $5.6 million from the Federal Government to help the mortgage banking and industry employees who have been laid off in this crisis.

California is a leader in a great many ways, some of which we are proud of, and some of which we are not. Unfortunately, many of the lenders that were writing these loans were based here in California and we have had significant job loss due to that.

Additionally, the Governor has made a directive that we push out as much bond money as possible, as quickly as possible, to stimulate our housing economy, and help get some of our construction workers back to work.

We have made $1.06 billion of bond awards since July of 2007 under Prop 46 and Prop 1C. This will help more than 23,000 California families rent or purchase affordable housing.

We have also made awards of over $72 million in Federal Home Investment Partnership Program funds, and have recently announced $30 million in CDBG awards, $7.2 million of which is coming right here to the Central Valley.

One of the most innovative programs we have been able to implement here in California, under the CalFHA, is our Community Stabilization Home Loan Program. It is, at this point, a $200 million pilot program, where we have sat down with lenders who hold REO properties, we have sat down with counseling agencies who have willing and able first-time home buyers who have been precounseled on the value and the responsibility of homeownership,

and this alone provides very low interest loans, complete with downpayment assistance and closing cost assistance to first-time home buyers, at very low interest rates, to purchase properties that have been foreclosed when the lender has agreed to discount those properties of at least 12 percent below market value.

So that is an ability to target some areas right now that desperately need to turn those foreclosures over, and we want to make sure they get into the hands of home buyers and not speculators.

That program, thanks to H.R. 3221, will probably be able to be rolled out statewide due to the bond cap that was in that bill. So thank you very much for your work on that.

What are my predictions for the future? Well, if we have learned anything, it is that the housing market is unpredictable. When the Congress was able to pass the recent bill giving the Treasury the authority to come in, and step in, and help Fannie and Freddie, we hoped that they would not be using it, and I woke up this morning to realize that, yes, in fact, they are. So it is good that they have that authority.

But even on the smaller scale, you can't predict what is happening. The mayor brought a newspaper with her. I brought one with me as well yesterday. I opened my door and the front page of The Los Angeles Times had an article titled, "Bobcats Jump On Vacancy." And who would think we would be dealing with bobcats.

Apparently there are some bobcats that found a koi pond to be a great place to have their kittens. There are all sorts of things we are dealing with that we can't predict.

Our median home price in California dipped below $500,000 for the first time in recent memory, in October 2007, and now it is down to just above $350,000. That has created a lot of problems with foreclosures, but the silver lining—and we do have to remember that real estate is cyclical, and we will come out of this some day, if we all continue to work together on it.

The silver lining is that affordability is at 48 percent statewide, up from 24 percent last year. Here, in the San Joaquin Valley, affordability is up to 35.5 percent versus only 9.7 percent last year.

Sales are starting to pick up. Inventory is down. Inventory is a very important measure to most economists. Inventory is down to 6.7 months now, statewide, in California. That is versus 16.8 in January. So we are seeing a significant reduction in inventory.

Interest rates are rising slightly but still had historic lows, which is good for the market. Unfortunately, though, our defaults are still astronomical. Statewide, we had 37,000 defaults and it has been hovering right around that level for several months now.

The foreclosures also are climbing. We had 23,685 last month in the State of California. Stanislaus County, San Joaquin and Sacramento reported foreclosures in June of 851, 1155, and 1640. So the problem is clearly concentrated here as well as elsewhere in California.

Another thing to be concerned about on the horizon is the resetting of the option ARMs. We have seen a softening in the prime market. We have seen a softening in the Alt-A market, and defaults rising in traditionally reliable credit scores.

But the option ARMs are also on the horizon. There's a slide, the last slide in my presentation will show the rest of those being con-

centrated in 2010 and 2011. Unfortunately, 53 percent of those loans nationwide are here in California. So we're going to feel a significant impact in the outyears on that.

Finally, I want to comment on the new Federal bill. The most important thing that I urge my colleague, my witness had left here from HUD, to take away from this today, is in allocating the $4 billion in emergency assistance for redevelopment of abandoned and foreclosed homes program, we need California to be seriously represented in that allocation.

The funding guidelines that were put in the bill clearly support that California receive quite a bit of that money. California has 27.14 percent of the foreclosed homes in the Nation, 13 percent of the subprime loans, 22 percent of the subprime debt, and 26.67 percent of the homes in default or delinquency. So I look forward to working with our colleagues at HUD, and continuing to collaborate with them. The first week in October, Treasury, HUD, and myself and the NGA, are putting together a summit on this and we look forward to continuing to collaborate. Thank you for the opportunity.

[The prepared statement of Ms. Peters can be found on page 100 of the appendix.]

The CHAIRMAN. Thank you. I take it you have the Secretary of HUD, whom I must say I have been very happy to work with. The new Secretary has shown a great deal of energy. He will be meeting with us, myself and the senior Republican on the committee, and we will be talking about this, and talking to me right up to that minute will be your California chairwoman of the Subcommittee on Housing, Maxine Waters, who has been the most ardent advocate of this, and a few others things, but particularly on the CBDG. So we will be very much aware of that.

Ms. PETERS. Yes.

The CHAIRMAN. And finally, we appreciate your attendance.

Next, we have Joseph Bates, who is the Director of the Santa Ana Home Ownership Center of the Department of Housing and Urban Development.

STATEMENT OF JOSEPH C. BATES, DIRECTOR, SANTA ANA HOMEOWNERSHIP CENTER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BATES. Good afternoon, Chairman Frank, and distinguished members of the committee. Thank you for the opportunity to testify today on the efforts made by the Department of Housing and Urban Development in the areas of foreclosure prevention and intervention.

The Administration and Congress have taken several measures to address the housing crisis, which I will outline in my testimony. In response to the housing crisis, the Federal Housing Administration, FHA, expanded its programs to help more Americans facing foreclosure refinance into safer, more affordable mortgages.

In August 2007, President Bush announced a new product called FHASecure for homeowners who fell behind on their mortgage payments after their initial interest rate reset.

Since the inception of FHASecure, more than 330,000 families have refinanced with FHA, and by the end of the year, we anticipate helping approximately 500,000 families.

On July 14, 2008, HUD expanded FHASecure to provide additional assistance to borrowers with adjustable rate mortgages. FHASecure is now assisting families who have missed up to 3 monthly mortgage payments over the previous 12 months, or have experienced temporary economic hardship such as loss of overtime or medical needs.

The increased mortgage limits: In March of this year, as part of the bipartisan economic growth package, the President signed into law a temporary increase in FHA loan limits through the end of the year, enabling even more families to purchase or refinance their homes with an affordable mortgage.

These temporary loan limits, which go as high as $729,750, are especially advantageous for high-cost areas such as California, where FHA's traditional loan limit of $362,790 prevented FHA from being utilized.

Thanks to the strong support of Chairman Frank, and many Members of the California Congressional Delegation, the recently enacted Housing and Economic Recovery Act makes permanent a new higher loan limit for high-cost areas of the country. Here, in California, that means FHA will now be able to ensure mortgages of up to $625,500.

The Hope For Homeowners Program: In addition to higher FHA loans, the Housing and Economic Recovery Act further expands FHA's ability to provide targeted mortgage assistance to homeowners. The New Hope For Homeowners Program will continue FHA's existing and successful efforts to provide aid to struggling families trapped in mortgages they cannot afford.

Under the program, certain borrowers facing difficulty with their mortgages will be eligible to refinance into FHA-insured mortgages, provided their lenders agree to write down a significant portion of their outstanding principal.

While the program is still in its planning stage, and key details continue to be ironed out, I am pleased to report, Mr. Chairman, that the board of directors and staff of the four member agencies have been working around the clock on getting this program up and running, and we are on track to have it implemented by October 1st.

I believe the Department will be in a position to discuss many of the key components to the program at the oversight hearing you have scheduled for September 17th.

Emergency assistance for the redevelopment of abandoned and foreclosed homes: The Housing and Economic Recovery Act also authorized $3.92 billion in Block Grant funds to be spent on the redevelopment of abandoned and foreclosed homes, and residential properties.

The funds will be allocated to States and local government using the following need-based criteria: One, the percentage of foreclosed homes; two, the percentage of homes financed by a subprime mortgage; and three, the percentage of loans in default or delinquent.

HUD will announce each State's allocation, including specific community allocations, in late September. While it is premature to

speculate how much the State of California and the communities in the Central Valley will receive, I think it is fair to assume, given the high rate of FHASecure in subprime mortgages, California stands to get a significant share of these funds.

And housing counseling: Housing counseling is an essential part of any solution to the housing problem. Effective counseling can help existing homeowners stay in their homes, and help new homeowners stay out of trouble in the first place.

Funding for HUD's 2,300 approved housing counseling agencies has increased by 150 percent since 2001, and $50 million was approved for housing counselors in Fiscal Year 2008.

Another $180 million went to the nonprofit NeighborWorks this year to help prevent foreclosures. The recently signed housing bill authorized an additional $100 million for NeighborWorks for foreclosure mitigation activities.

Thank you. I appreciate the opportunity to appear today and discuss this very important issue.

[The prepared statement of Mr. Bates can be found on page 62 of the appendix.]

The CHAIRMAN. We will begin the questioning with our host, Mr. McNerney.

Mr. MCNERNEY. Thank you, Mr. Chairman. I want to thank all of the witnesses for your testimony today.

First of all, I want to start with a question for Heather Peters, and I might want to sort of repeat the question for Senator Machado.

You mentioned a number of legislative opportunities that took place in Sacramento, that will help in the foreclosure crisis. How do you see those working in conjunction with the Federal programs such as the $4 billion fund for communities to purchase homes? Is there any vision about how that might happen or about how we might coordinate efforts?

Ms. PETERS. We are in the process of having all of our departments dig through the minute details of the bill.

At this time, we believe that our Housing Community Development Department and our CalFHA have the authority they need to implement those programs, and as I mentioned, we are well on our way to implementing at least the bond cap. We have a program ready to put that into and the CBDG grants; we have plenty of experience with that.

I don't believe we need any additional State legislation on that. But I will pass the microphone to Senator Machado.

Mr. MCNERNEY. Sure. Thank you.

Mr. MACHADO. I concur with Heather Peters, and I want to say that her department has done, I think, an extraordinary job of picking up the pace and making the efforts to implement the Federal programs, and also State programs, to come back in and try to address the needs of the community.

Mr. MCNERNEY. Thank you. Senator, from your perspective, what do you think we could do, that would best serve the State and the region?

Mr. MACHADO. I think you have to divide this probably into two parts. One is what can the Federal Government do in terms of financial assistance to local government and local communities? And

I think we are seeing that, in part, with the recent House legislation that was enacted.

The other part that I think is difficult is how do you get the financial community to respond. In my office, I am hearing of more and more people who have tried to call the lender or the servicer. There is no response, it is difficult to get access to, and even with the HOPE NOW lines, people often fail to get the response, if it is beyond help. Part of the problem, I believe, is that lending institutions are hiding behind the banner of contracts that servicers have, that oftentimes give the fiduciary responsibility to the lender or the investor, and not necessarily the latitude to be able to do the workout.

If we are going to be using taxpayer dollars to bail out Bear Sterns, to shore up Freddie Mac and Fannie Mae, then I think the bully pulpit of Congress and State government ought to be used on the Bank of America's, the Countrywide's, the Wachovia's, the Washington Mutual's, and others, to be more responsive in terms of trying to do a workout.

The workouts have to be the—and I understand that—on the ability to pay. When you have people who were made loans, what they called NINJAS, no income, no jobs, no assets, with no equity going into a home, they may not be helped.

But there are others that, with a restructuring, who do have a legitimate—can demonstrate the ability to pay, that there ought to be an extraordinary effort on the part of those lenders to be able to do that, and at this point I think they are not, and part of it has to do with the complexity of the investor market, where you have bundled up these loans, you have separated them into separate tranches, and from a fiscal and investor perspective, it is often a higher—it is a minimal impact on the investment if they can dispose of it through a foreclosure than it is to try to work it out and carry it forward.

And it is only going to take instilling on institutions a moral responsibility to be more proactive and to be willing to take the risk. But it has to come from the industry. As soon as we start trying to legislate that, we will create a degree of uncertainty in the secondary market, that I think will further exacerbate the capital availability, and as I mentioned in my comments, it creates an interesting paradox that could limit the accessibility of homeownership.

Mr. MCNERNEY. Thank you, Senator.

Supervisor Gutierrez, what is it about San Joaquin County and Stockton, that made this area so susceptible to this problem?

What unique characteristics do we have, in your opinion?

Mr. GUTIERREZ. Tremendous and unprecedented growth. In many cases, I will go out and say it—poor planning. The fact that we haven't truly looked at the economic depression in our county and the ability for people to pay. Limited resources in terms of staffing in the county government. Those agencies that are established within county government to provide those supportive services are understaffed.

It pretty much sets San Joaquin County into a position of being taken advantage of, and for a lot of people to fall into that same category. So many, many families in San Joaquin County wanted

the opportunity to have that dream, Jerry, and at any cost, because they are taught that once you own a home, you will have an education, you have the ability to provide an education for your children. Your children can go to college. So these folks were preyed upon. And now it is just getting further exacerbated. But San Joaquin County has had tremendous growth, and when you look at, for example, the City of Lathrop, was in real trouble, to throw this on their plate as well—devastating.

Mr. MCNERNEY. So Supervisor, you have a list of shortcomings and inadequacies in the bill, and as I look at them, I say they would be nice to try and implement, but then, going along with what the senator said, those kind of draconian steps would cause instability in the marketplace and perhaps exacerbate the problem.

Do you have any comment on that?

Mr. GUTIERREZ. Now Mr. Congressman, I agree with the senator. I think the comments are accurate. However, albeit there is no silver bullet here, no question about that, and we are trying to make lemonade, but it is really bitter lemon and there is not enough sugar to go around. And there was a comment that Congresswoman Speier made about the district attorney's office. I could not agree with you more.

Our district attorney, Jim Willett, has made a commitment to prosecute, wherever he can, for those predators that took advantage, and try to work out a deal, if he can get those predators to compensate these families, so they can at least stay in their homes, try to make them whole.

The problem is when you're looking at diminishing revenues, to the tune of $4 million today, and $13 million next year, when the district attorney comes to our office and asks for those additional resources, for more prosecutors, it is not going to happen.

Mr. MCNERNEY. I mean, do you think the fear of additional prosecution will have a positive impact?

Mr. GUTIERREZ. Absolutely. I don't know what other teeth you have. I mean, the fact of the matter is that a lot of these predatory lenders have absconded. They left. You had some folks working for some people, Congressman, and now they are gone. I have families who have come to me, who can't get ahold of the people who processed their loans. They are gone. They are no longer working for the company. So who is responsible for those folks?

I will tell you one thing. In a lot of these families, they don't have the time or resources to go on a hunt.

Mr. MCNERNEY. Well, but I mean after-the-fact prosecution assumes that you can identify and bring to justice the people who perpetrated the loans, as opposed to preventative measures beforehand, that keeps those loans from being offered in the first place.

Mr. GUTIERREZ. Absolutely. There is no question about that. Congressman, I think what I am saying is that as the Federal Government is looking at, and the State is implementing measures to prevent this from happening again, you have a number of families out there who are creating another generation that is going to be built upon the inability now to send those children to college and large families. So yes, we have to implement measures to prevent this from happening again but what are we going to do about those families who are in the thick of it right now? That is my concern.

Mr. McNERNEY. I think I have run out of time here, so I am going to yield back to the Chair.

Ms. SPEIER. Thank you, Congressman. Congressman Cardoza.

Mr. CARDOZA. Thank you, Congresswoman Speier. I want to first, if I could, I had 10 constituents who submitted testimony. We asked a number of the government officials, and officials that had knowledge of the industry to come speak to us today, but I also sent out a request to my constituents to put in writing some of their individual stories, and I would like to submit for inclusion in the record a list of 10 items that we will provide to the staff.

Ms. SPEIER. Without objection, they will be included in the testimony.

Mr. CARDOZA. Thank you.

Also, Mr. Frank alluded to it, that Mayor Wooten, who is also a realtor in our community, had provided us with a redlining letter. Well, it was a letter from a lender, saying that our geographic area didn't qualify for their criteria of loan making because it was a declining market. And we had been in contact with that lender, and they have changed their practice.

But there is another, that she provided today. This is something that you worked on in the State legislature, as I recall, and on a little bit different topic. But I want to submit into the record another letter given to my by the mayor, that indicates another lender is perpetrating this practice.

Now the reason why I bring this up is because if lenders start circulating territory and saying this is a bad area and we are no longer going to lend there, then this will cause the crisis that we are experiencing today to spiral out of control. It is already out of control, in my opinion, but it will just become that much deeper and that much worse.

I am very concerned about that, and I would like the committee to take a look at it and see what we can do to preclude this kind of activity.

Ms. SPEIER. It will be included in the record, without objection.

Mr. CARDOZA. Thank you.

I want to, before I forget gain, when I deviated, and I always do this, when I deviated from my staff's prepared comments, I forgot two things that were very important, the first one being that—well, downpayment assistance is still critical in my area.

We have low-income folks who have the ability to pay, especially at today's housing prices, but they don't have the ability to bring about a large downpayment.

When I was a Realtor, I had hundreds of folks that I would talk to, who would tell me that that is how they got into their house, and those folks, for the most part, were always—well, not always—but they were good citizens, they paid off their mortgage, they are still in them. I was a Realtor about 10, 15 years ago, 15, 20 years ago maybe. Time flies.

But a program in the recently-passed bill, through no fault of Chairman Frank, or Chairwoman Waters, or yourself, the Nehemiah Program was eliminated in this bill that we had to pass because of the negotiations with the Senate and the Administration.

I have been in consultation with a number of my Realtors, and the question I have is to Mayor Wooten, because she deals with

this: How the Nehemiah Program's elimination will devastate our area, or at least severely impact it.

Mayor Wooten.

Ms. WOOTEN. The Nehemiah Program was used heavily in Merced County, and many people were not out of the box when it was taken away. We are basically an agricultural community. There are solid people but many of them do not have a bank account with 20 percent down for this house.

Nehemiah helped in such a manner that the seller came to the forefront to get them in. From that point on, they have their home, they made their payments, there was no monkey business. When the Nehemiah Program was knocked out, it knocked out quite a few very good qualified buyers, and it has hurt us.

And the other thing I would kind of like to touch on—you were speaking about people calling their lender to try to get help and they could not get help. That is because many, many of these larger institutions no longer have underwriters. The underwriters commanded more money. Therefore, the underwriters left, if you will.

The person answering the phone is generally a receptionist, and when you can get through them, which is highly unlikely, you get to someone who has 100 to 200 folders sitting on their desk. It is just not working, and I don't know how you can bridge that gap.

Mr. CARDOZA. Well, that actually brings me to my next point, and I will tell you, I have worked with you a long time, Senator Machado, and what you just told me you did in the legislation about requiring the lenders to make contact with borrowers—I forgot to mention that when Mr. McNerney and I had that housing workout forum here, in this room, you were part of that as well, and I think that is probably where you took back some of those ideas, because you heard, like we heard, our constituents saying that folks were not being responsive.

I am very curious to know how your legislation is going to work, because I think it is a great idea to take back on the Federal level, is to require—obviously, foreclosures take place, for the most part, under State law, but when we're guaranteeing loans, it certainly makes sense for us to require that the servicers of those loans have to make some kind of personal contact, and I would like to know how you anticipated working on a real life, real-time basis.

Mr. MACHADO. Under the provisions of the bill that I co-authored, along with Senator Perata, and many others, it requires that before a notice of default is issued, the lender has to contact the borrower and let them know that they are in a situation in which there is going to be a default notice, it has to be done—there is a prescription that has to be done, both by mail and also by phone, and that contact has to be recorded.

If there is no contact made, a notice of default is issued, and then you proceed into a foreclosure setting. There is recourse through the courts to—in this case, would be to set aside the default and the foreclosure until that situation is remedied.

I think it is very important because of a couple of things. One, many borrowers who find themselves in a problem are often embarrassed. They tend to, as we all do, if we have a problem we put it at the bottom of the pile, and in this case you are trying to make sure they are notified of that, and also be made aware of the serv-

ices that may help them in a counseling perspective, so that they can start working out of their particular circumstances in order to be able to avoid foreclosure.

Mr. CARDOZA. Thank you. Supervisor Gutierrez, you were talking about the challenges that affect local government. I have said a number of times that I compare this crisis, the foreclosure crisis in California as the "Katrina of California," because it has devastated that many housing units. It has affected so many families. It has caused so many people to move.

And I had one constituent, the other day, who said, "But Congressman, it is not causing the physical harm to individuals that Katrina caused." And I said: "But you are wrong, because it causes psychological damage." We have seen the domestic violence cases go up, and you are on the front lines as a county supervisor dealing with those kinds of challenges. We have seen suicides. There have been a number of folks who have been impacted, and I would like you, from your personal experience, boots on the ground in the community, to share with us your feeling about that.

Mr. GUTIERREZ. Thank you, Congressman. And we are still dealing with Katrina, with the redrawing of the flood plain maps in San Joaquin County.

Mr. CARDOZA. That is a whole different issue, but that is a problem too.

Mr. GUTIERREZ. I know. That is a meeting that should be in the next room.

Mr. CARDOZA. Well, since you brought that up, could I just mention, I know we have been doing a lot of praising of Congressman Frank and what he has done, but I will tell you that he has specifically tried to assist me a number of times, and Mr. McNerney, with regard—you know, we were talking about Lathrop being devastated in this situation.

Well, the whole San Joaquin County area being a delta, it has significant issues with levees, and communities that are being affected right now by this other crisis are now going to have to repair the levees because FEMA decertified the maps.

And you layer on top of the foreclosure situation—

Mr. GUTIERREZ. That is right.

Mr. CARDOZA. On top of accelerating loan payments, because they are readjusting, flood insurance is going to be—

Mr. GUTIERREZ. That is right.

Mr. CARDOZA. That is just one more thing to push people over the edge. So Congressman Frank has really been sensitive to that. Congresswoman Waters has been very sensitive to that. And since you mentioned it, I just wanted to thank them about that. Go ahead.

Mr. GUTIERREZ. Thank you very much. But that is exactly my point. So when we talk about San Joaquin County and we talk about the Central Valley and our senator knows full well the issues that we are facing in regards to water, a potential canal, and we can go on for days. So the politics is really interesting right now for San Joaquin County and the residents of San Joaquin County.

But getting back to your question in regards to families, I have a family right now, the Ortiz family, who are sleeping in a garage because they invested everything that they had into this home for

their family, because they were told that if you have a home you can send your children to school. And they have three.

And the young man, the young teenager, he is 16 years old, was involved in gangs, and he started to get away from gangs because their life turned around. They actually had a home. He had his own room, and the children had their own rooms. And now the predatory lending, somebody came by with a wonderful opportunity, not unlike the lady that you were talking about, they took this opportunity because they saw the ability to get a $100,000 loan, and they were going to take that loan and they were going to fix up their home, and build their investment.

And what happened? Well, they thought it was 5 years. It turned out to be two, it reset, and their home payment which was $1,200 a month, went up to $2,200 a month, and it was a matter of months. Now they are in a garage and they are trying to find a place to rent, so they can put their children back in the home.

The father has turned to alcohol. He is actually beating his wife. He doesn't know what to do. He is the man of the house. He failed his family. His child is starting to go back into the gang, and the siblings are following suit. So that is one family.

Carol Ornelas can tell you about families on top of families. Any real estate that is trying to work with a family to try to help them get a home, they can tell you the stories. There is so much beyond the finances.

So to characterize this as different than Katrina, quite frankly, you are affecting a family, you are affecting a generation. Those young people who are now in that home, who are enduring this physical violence, seeing their mother and father traumatized, that is generational. That is going to move forward. So I think it is a mischaracterization to suggest that the folks who went through that are any worse than the folks who are going through this today, and although I am very pleased to see the Federal Government, who took their eye off the ball, now putting their eye back on the ball.

And all I am saying is that we have to remember that while you are trying to fix it and figure out all the kinks, there is a whole plethora of people out there who are in the thick of this and have no way out, because you can't bail them out.

And San Joaquin County was approached with some wonderful ideas. This involved Carol as well. San Joaquin County, the board of supervisors, we haven't done enough, we really haven't, but we are asked the question from those people who have paid off their home, that didn't go into risky ventures,and their question is this. Why should I, as a taxpayer, senior citizen, that I am living within my means, that I am having a hard time paying my medical bills, why should I, as a taxpayer, foot the bill to bail somebody else out, regardless of who they are?

And I as a policymaker, front line, face to face with these voters, what do I say? You have a really good point. So, quite frankly, it is very challenging and my hat is off to the chairman and the committee, and you have a big job ahead of you.

Mr. CARDOZA. In closing, Mr. Chairman, I think I have probably gone over my time, but I just want to draw on what Mr. Gutierrez said, and Ms. Wooten and Mr. Machado. You know, there were cer-

tainly bad actors in this. But there were certainly innocent victims as well.

Eighteen months ago, 2 years ago, people were looking, if I don't jump into a home right now, I'll never be able to buy a home, cause prices were escalating at such a rate, that every one of the publications, every newspaper, every radio program, every TV report, were talking about how high the costs were going, and for those folks, if they saw a way to jump into the swimming pool, they were going to try to make that leap because they thought that they would never ever be able to afford a house, ever again, if they didn't make the leap now because it was escalating so quickly.

And so those folks who in good faith were just trying to take their part in the American Dream were struggling, in any way possible. These are good folks. These are not criminals. These are my constituents. They are my neighbors. They are my friends. They are my family. They are my staff who are trying to get houses.

I had two of my staff this week tell me that they were upset that the Nehemiah Program was being taken away, because that is what they were going to use to get into a house.

So these aren't evil folks. I get really angry when I hear folks condemn everyone who is involved in this. There are certainly bad actors. There are certainly situations that have caused challenges. But there are a whole lot of good people who have been devastated by this, in much the same way as when a storm comes and affects everybody, rich and poor alike. So thank you.

The CHAIRMAN. Ms. Speier.

Ms. SPEIER. Thank you, Mr. Chairman. I am going to try and ask these questions very quickly, so that we can get on to the next panel.

First, to you, Ms. Peters. You may recall that after 9/11 there were terrorism dollars made available across this country, and there was this equalizing that took place, where Wyoming got as much money as other jurisdictions, when the likelihood of having terrorist activities there was remote.

In what we have done so far, a quarter of the dollars have gone across the country, so everyone got a little bit. I am concerned that this is ground zero for the foreclosure market, and I want to guarantee that this area, in particular, is getting the resources it needs.

California is a donor State to the Federal Government to the tune of $50 billion a year, and it is things like these formulas that come up, that disadvantage us in ways that it should not. So I would ask you to look at that formula and compare it to other States, and then respond to the Chair and to the members of this committee, so we can assess whether or not we should be amending that particular formula for dollars to be had here in this region.

To Senator Machado, you carried a number of bills to try and address the crisis. Having spent many years in that process with you, I know how bills get watered down.

So I guess my question to you is what are some of the other elements that might have been in your bill, that got stricken from your bill because of opposition by various interests, that you believe would be important to include in any kind of reforms that we look at on a Federal level?

Mr. MACHADO. That is difficult to answer, because I don't believe in any of my specific legislation, that we did take any major watering down. If anything, the major hurdle that we face is the resources for enforcement, and being able to have the staffing in the Department of Real Estate, in Department of Corporation, Department of Financial Institutions, to be able to carry out the law enforcement.

There was subsequent legislation by others that had been changed substantially, and the biggest problem that we faced in California when taking a look at the proposals, was whether or not it was going to create an unlevel playing field and lead to regulatory arbitrage.

And I have been very strong to make sure that we had a level playing field, so that State licensees and Federal licensees would be dealt with similarly, so that we would not see a migration to whatever area had the least level of enforcement.

The other side of that is that many people have thought that they could come in and use private right of action for enforcement. I don't think that gets to the real problem. I think it provides for some cathartic relief but it doesn't necessarily get to the problem that we face.

And I think we have to remember that many of the loans that were made, that are now problem loans, were made at a time when it was not illegal to do that, and what we found was because of the array of products that came up, that found State and Federal regulators asleep at the switch in terms of understanding what the problem was, going away from proper underwriting standards, moving away from disclosures, that we have come in to try to backfill. Part of that came in with the Federal guidelines, and employing that. But I think we have to—people were making legal loans. Were they upright? Was there a moral responsibility that should have been exercised? Probably so.

But I think we have to look at this in terms of, how do you fix the problem, going forward? I think the State, in cooperation with this Administration, and my colleagues in the legislation, we have done that in a very strong way.

Ms. SPEIER. Mr. Chairman, while you were out, Congressman Cardoza had provided the committee with documentation that Mayor Wooten also had available to her, that suggests that some of these banks are redlining and creating guidelines, so they will not come into certain areas, this area being one of them, and that documentation has been provided to the committee.

I guess my question to those of you who are on the panel, and to our committee is, as we move forward with Fannie Mae and Freddie Mac, and now that we have, let's suggest, a greater ability to direct them, whether or not we should mandate that some of these banks come into specifically the most hard-hit areas in the country, and start making loans in these areas, because otherwise, you can see that they could just come up with these guidelines that will have the effect of redlining.

Mayor, do you have any comment on that?

Ms. WOOTEN. I don't know that you could do that. I certainly would like to see that, especially for the Central Valley. The other thing, which is a little off of this, that I would like to see, and I

don't know if it is possible, in the world of mandates, I do not believe a licensed Realtor should also have the ability to be a licensed mortgage broker, and the ability to be a licensed insurance person.

I think many—well, let's just say quite a few of the problems could be stopped. I don't like that idea, I never have liked that idea, and I wish there was something that, on a Federal level, could be done.

Ms. SPEIER. Thank you. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Well, let me begin with that. Maybe you are on the level, but you are on the wrong level. You have to talk to Ms. Peters about that, because all—

Ms. WOOTEN. Sorry. Ms. Peters.

The CHAIRMAN. —those licenses you talk about are today's State licenses. Now we are trying to deal with a brokerage issue. Let me give a little history. I will respond here. In 1994, the Congress passed a bill called the Homeowners Equity Protection Act, which empowered the Federal Reserve Board to issue rules that would prevent subprime mortgages that were the wrong kind.

Remember, we have two sets of mortgage originators in this country. We have banks and credit unions and thrifts, and frankly, if they were the only ones who had originated mortgages, we wouldn't have the crisis, because they are subject to sensible regulation by your State bank commissioner, by the FDIC, by the Credit Union Administration, and by the Comptroller of the Currency.

What grew up over the years was the origination of mortgages by people outside that regulated system. Now the banks aren't entirely out of this, because many of them then bought some of these. But the banks, as buyers of other people's mortgages, got into some trouble.

Banks as originators did not. The Federal Reserve Board was given, in 1994, it was my predecessor, not me, who did this, a man named John LaFalce, when he was the senior Democrat, and told the Federal Reserve, please put some rules in so these kinds of mortgages can't be made in the first place—the people with the $200,000 house with $960 in income.

And Alan Greenspan said no, that is an interference with the market, the market knows better than I as a regulator, and refused to do it.

Chairman Bernanke, a month ago, finally took the authority that that law gave him and you will not see the kinds of mortgages that have caused trouble in the future, almost certainly, because they are now forbidden.

But as many of you have noted, it is one thing to stop something from happening in the future; we are in a different legal and constitutional position when we try to undo what is already done, especially when it was, as was noted, legal at the time.

So going forward, we were somewhat more encouraged. Then people raised a question, well, what about people who were making $35-, $40-, $45,000, who are responsible? Are they going to be out of the market? No. One of the things we did in this bill was to empower the Federal Housing Administration, the FHA, to get back in the business, which it hadn't been in before, of helping, and that's where the loan limit that your Governor worked on with Ms. Peters, and Gary Miller worked on, Maxine, Dennis Cardoza

wouldn't give me any peace until we got it done, and so you will now, going forward, have an FHA that will be able to give mortgage guarantees for most of California.

Madam Speaker, I am sorry we couldn't get to your level, but we got everywhere else.

But that is part of the issue. Now to go beyond that, we didn't know the Federal Reserve was going to do that.

Last year, this committee that is now sitting before you passed a law which did restrict some of these practices, and did try to regulate things. The Senate hasn't passed it yet and may not get to it. But the Federal Reserve did do that. But as far as the licensing you talk about, those are all—who gets to do what are State issues.

But we do basically say that there are a couple of principles that the bank regulators had been using, very radical principles, and we apply them now to all mortgage originators.

One, don't lend people money if they can't pay you back. I mean, look, if you were a bank, a thrift, and you made a loan like that, you would have your examiner saying, "What is the matter with you?" Two, don't lend people more money than the property is worth. Now people couldn't have anticipated the drop; but they still lent too much.

A couple of other points on the foreclosed property. You should know that Maxine Waters was just very much the advocate there.

The formula isn't yet set in stone, and I would say, Ms. Peters, I would encourage you to work with us. It is up to HUD. In fact, Secretary Preston is coming to meet with me and the senior Republican on the committee to talk about this.

We did pass a better bill in the House. It had $15 billion, half loans and half grants, not $4 billion. It had a formula that was tied to where the problem is. But we couldn't get it through and the Senate did. So I can't criticize them.

You know, we had a wonderful bill that didn't pass. They had a pretty good bill that passed. They win. So we deferred to them in the final piece. But the specifics aren't there, and my instruction—Ms. Laster is outside doing the work, she is chief counsel for housing—our instruction to HUD is please use whatever flexibility is in that law to get the money where the problem is.

And there are two kinds you have, by the way. Don't understate your claims for a good chunk. One, you have more property. Two, your property is more expensive. In fact, even though foreclosed property doesn't have its full value, foreclosed property here is still worth more than foreclosed property in many other States, and that has to be taken into account.

We are going to be pressing, very much, for doing that. So I am more encouraged about the future.

But now on Ms. Speier's point about redlining, I mean the mayor's right, we can't completely mandate. On the other hand, one of the things we will be doing next year is having a serious look at revising the Community Reinvestment Act (CRA).

The Community Reinvestment Act is a good thing but it was passed 31 years ago. A lot of the entities that now exist didn't exist then, and aren't covered by the Community Reinvestment Act. The Community Reinvestment Act did the banks, and it was all banks then; this was 1977. So we have to expand the coverage.

Secondly, we have to look at enforcement. Right now, the Community Reinvestment Act is only enforceable when there is a change in ownership and they need permission to change ownership. They get ratings but there's no penalty for having a lousy rating, other than people make fun of you, and some people bear with being made fun of better than others.

We are going to be looking at covering entities that are not now covered by the CRA and improving the enforcement. But as to the redlining piece, and Ms. Speier is right, it may well be that there is a greater Federal role in Fannie Mae and Freddie Mac, and I am hoping that out of what is happening now, there will be more protection for the housing mission.

But we will look at it, and we will call in some of those banks, and Ms. Speier, I am sure, will be available to help us work on this, and ask them to come in, and the staff will be available, and we will deal with this at the outset, to make sure that they know how unhappy we will be if they do redlining.

And the last thing I would say is this: Some of these things we cannot compel legally, or outlaw. There are things we would like some of the financial institutions to do and we can't make them do them.

I should also point out, however, that there are other things that the financial institutions would like us to do and they can't make us do them. So if there are things we want them to do, and things they want us to do, you then get to the basic principle of legislating, and I am sure many of my colleagues understand that the ankle bone is connected to the shoulder bone, and we will proceed, have some conversations, so Ms. Speier will be able to take the lead on that as a member of the committee working with the others.

I thank the panel. Remember, again, anything you want to submit, we will do that, and Ms. Peters, you might want to talk to Gail afterwards about coordinating her efforts with the Secretary, to make sure you get your rightful share.

I will now call the next panel: Ms. Amador; Ms. Canada; Ms. Ornelas; and Mr. Duarte.

Thank you, and we will begin where the microphone is; I am easy to get along with. We will begin with George Duarte, who is with the Horizon Financial Associates, and he is speaking on behalf of the California Association of Mortgage Brokers.

Mr. Duarte.

STATEMENT OF GEORGE DUARTE, CMC, HORIZON FINANCIAL ASSOCIATES, ON BEHALF OF THE CALIFORNIA ASSOCIATION OF MORTGAGE BROKERS (CAMB)

Mr. DUARTE. Thank you. Mr. Chairman and distinguished members of the committee, we greatly appreciate the opportunity to speak today and present testimony on this local crisis.

I am the vice chairman of the Government Affairs Committee of the State Association of Mortgage Brokers.

I appreciate the opportunity to testify on behalf of CAMB and I would like to extend my gratitude to Congressman Cardoza and Congressman McNerney for the invitation to speak today and to share our observations and experiences about the challenges con-

sumers face as they seek to avoid the tragedy of foreclosure, and the impact of rising foreclosures in Central Valley.

I commend the committee for traveling all this way here to what has been called our ground zero for the mortgage crisis that is facing our Nation, and to hear directly from those of us who are seeing the problems, firsthand, with our boots on the ground, so to speak.

We are in the community assisting those who are faced with the tragedy of losing their homes, and witnessing the aftermath of the crisis and the dramatic impact on the local neighborhoods.

The Association of Mortgage Brokers is a nonprofit professional trade organization comprised of licensed real estate brokers, salespersons, and affiliated lenders, whose primary business is assisting consumers in obtaining residential and commercial real estate financing and brokering conventional and government mortgage loans.

Since its inception in 1990, CAMB has promoted the highest standards of professional and ethical conduct, among which our expert knowledge, accountability, fair dealing, and service to the consumer and to our community. The Association provides education, legislative and regulatory representation, and public relations for its members, while serving as a forum for the development of common business interests across the industry.

CAMB has led the mortgage industry by being first in California and the country to define and combat predatory lending as well as creating a mortgage origination handbook of best practices, that has set the standard for best practices in the industry.

At both the State and Federal levels, CAMB has advocated for and is dedicated to curbing predatory lending practices while ensuring the best products are available to help more and more Americans achieve and sustain the dream of homeownership.

In California's Central Valley, the number of homes in danger of foreclosure has more than doubled in the last year, and despite some reports to the contrary, the situation is getting worse.

The Central Valley obviously has been most heavily impacted by the foreclosure crisis, and with San Joaquin County on track to have more than 16,000 homes foreclosed in this year alone, Central Valley continues to be at the center of this crisis.

Stockton has experienced a 50 percent decrease in median home values or more in just the last 12 months, and our neighboring cities and counties are also experiencing similar declines.

This dramatic decline in home values impacts the equity of homeowners who are not in trouble and has caused them to walk away from their properties, even when they can make the mortgage payment, because they owe more than the home is worth, further exacerbating the problems of vacant properties in our communities.

Projections are that things will get far worse as the negative amortizing loans are scheduled to reset in the next 12 to 24 months, as has been stated previously.

It is imperative to stop the downward spiral of people losing their homes, which is also causing the equity of other area homeowners to vanish. We commend the committee for its continued focus on finding ways to achieve stability in the housing markets,

to end the foreclosure crisis, and to stop the dramatic declines in home values.

As part of CAMB's efforts to assist in the crisis, we developed the Preserving Home Ownership Initiative. CAMB has been reaching out to community leaders in an effort to provide assistance to homeowners who are facing foreclosure through the CAMB Foundation, which is a 501(c)(3) nonprofit organization. Through its Preserving Home Ownership Initiative Program, CAMB Foundation provides free community-based forums that allow existing homeowners a one-on-one mortgage counseling session with a CAMB adviser.

The initiative program began initially as a program to help homeowners to understand their loan documents, and to answer any questions regarding financing, credit, and homeownership. Due to the current market situation, the initiative has evolved into a program that offers counseling to homeowners about the loan modification process.

These events take place at community locations, often in partnership with other local organizations and elected officials. The California Department of Consumer Affairs and the Business, Transportation and Housing Agency have partnered with the CAMB Foundation to offer the initiative program in town hall settings. In addition, the program has been facilitated by local television networks through telethon format, allowing us to reach thousands of consumers.

Since January 2008, this year, we have convened more than 50 events across the State of California as part of the Governor's task force, working closely with Secretary Peters.

In addition, in the last 10 months, we have held 10 telethons, 7 in English and 2 in Spanish. The advisors of the initiative are experienced volunteers who are members of CAMB. The counseling service has provided the event as absolutely free of charge and volunteers are prohibited from engaging in self-promotion or soliciting business from participants.

We are dedicated to ensuring that the initiative remain an educational event for consumers as opposed to a forum for advisers to generate leads. With that in mind, rules of conduct for advisers at the events are strictly enforced. Counselors provide advice to consumers about the loan modification process, and how to have successful interaction with a servicer. We provide phone numbers for lenders. We offer advice about what materials consumers should have in front of them before they call their servicer, and offer strategies for them to be successful in their call.

For example, we advise consumers to immediately ask for the Loss Mitigation Department when they call their servicers. We also provide service and advice about how to complete the loan modification form.

Further, we counsel consumers on what to expect in terms of how long they might be placed on hold, acceptable timeframes they might have to wait to receive the answer regarding the consideration of their loan modification request.

The counselors try to provide homeowners with as much information as possible, so they can advocate for themselves when they contact their loan servicers.

Our most recent initiative telethon was held on August 8, 2008, in Sacramento, California, in which I personally participated. We partnered with channel 3, KCRA, an NBC affiliate, from 5 a.m. to 7 p.m., to offer information and advice to individuals who called the hotline. Telephones were manned by 10 to 12 counselors who were also available to answer by e-mail. During the course of the day, we received over 1,000 calls and 400 e-mails from consumers in need of assistance.

What we found—I would like to take this opportunity to share with the committee what we have learned through our initiative events about the problems many in danger of foreclosure are facing in seeking assistance from servicers to find a solution that would allow them to remain in their homes.

Unfortunately, it is all too often that individuals feel they have nowhere to turn as a result of the responses they receive from loan servicers when they call a toll-free phone number that is printed on their monthly mortgage statements.

While the program has been successful, it is apparent that much more must be done to reach all those who are in assistance in avoiding foreclosure. We have learned that consumers are confused and they do not know where to go for help. The misinformation they have received is unbelievable.

The first logical step is to call a toll-free phone number, but for too many homeowners, this only leads to frustration and confusion. While lenders are reporting high levels of loan modifications, the efforts are clearly not enough, given the long lines of people coming to us for help, and the confusion that consumers express.

What has happened to so many of our fellow Americans to get them into this situation is abhorrent. The stories that we have heard are heart-wrenching as well as mortgage professionals, we find them to be infuriating. Not only are we hearing about high incidences of mortgage fraud, but the majority of the time at initiative events participants are learning about their options for the first time and have been misinformed or misdirected by their servicer.

We believe in order to stem the tide of foreclosures, it will be absolutely critical for servicers to make significant improvements to their loan modification processes, and to offer clear instructions and competent, trained, and compassionate individuals to work with their customers.

Counseling entities do not have the ability to address the sheer volume of all those who need help. Without improvements to the operations, we will continue to see the high volume of people in need of assistance in getting the information and results from the servicers that they need.

As a result of our experiences, I would like to offer some of the following observations and suggestions about the problems.

We find that there is a significant lack of experience with loan servicers. This was mentioned earlier by a previous participant. The problem is that many individuals are not fully trained or appropriately qualified to assist consumers with the process.

There is inconsistency in information. Time and again, we are told by consumers that they have received different information, instructions, or advice each time they call and speak to a different

person at their servicer. Because they are not always talking to the same person, or department, the terms and requirements for loan modification frequently change.

We see that there is lack of coordination in servicing departments. Departments do not talk to one another or share information about a specific account. As a result, a consumer could be working hard with the Loss Mitigation Department for a loan modification, but because the Default or Trustee Department is not aware of this, the person's home can be sold at a trustee sale in the middle of a loan modification process.

Further, if the consumer is directed to the Collections Department, the focus is on collecting late payments rather than working on the loan modification.

Time delays: Most of the servicers take between 90 and 120 days to let a consumer know if they are approved for a loan modification. Some take even longer. With some of the lenders, the consumer might send in the loan modification materials but it takes so long to process it that the package will expire and the lender will tell the consumer that they have to start over.

Lack of consideration of individual hardship circumstances: Most servicers require a hardship letter to be included in the loan modification package. Unfortunately, it appears to us that these hardship letters are largely ignored. Instead, decisions are made by formulas as opposed to the individual's personal circumstances that have caused the difficulty in making payments. Most people whom we see at our events have 2 or 3 years of excellent payment history. The problem arose for many when their minimum mortgage payment reset. If servicers would consider leaving payment where it was prior to the reset, this would help many avoid foreclosure.

Which leads us to one of our main suggestions to help the crisis. In addition to the problems with the loan process in the aforementioned section, a significant drawback of the loans that have caused so much damage is the future that results in very high margins that begin after the initial period of 2 or 3 years.

We have seen so many of the subprime loan programs, they were fine for 2 years or 3 years, and people then, they get reset, and the margins on some of these loans are 4, 5, 6, or even 7 percent over the rate. So they come into the double digits.

One way to stop the rate of foreclosures is to place a temporary moratorium on the adjustment of adjustable rate mortgage loans, keeping them at their start rates for 3 to 5 years.

Another option would be perhaps to place a temporary limit on the margins of ARM loans to more than 1.5 percent, which would have the impact of actually lowering the current rate from the initial start rate on many ARM loans.

Many of these options are currently being utilized by lenders. The problem is that the loan modification process is bogged down with the ever-increasing numbers and lenders are falling behind.

The second feature of our suggestion is saving neighborhoods impacted by the high foreclosure rates. The impact on neighborhoods is critical, as has been mentioned before by several of the presenters, and one of the reasons for that is because for closed properties, the appraisal value is done by comparable sales. So if the only activity in your neighborhood is foreclosed or short sales, and

the property values are so low, that negatively impacts and essentially equity strips the value—

The CHAIRMAN. We need you to come to a close pretty soon.

Mr. DUARTE. Yes, sir. Thank you. So we suggest to perhaps have a second class and delineate the appraisals of distressed properties separately from nondistressed properties; that may take the pressure off.

In conclusion, I would like to thank the committee and the chairman for the opportunity to offer our suggestions and observations to the committee. Thank you very much.

[The prepared statement of Mr. Duarte can be found on page 75 of the appendix.]

The CHAIRMAN. Thank you. Full written presentations, of course, are welcome.

Next, we have Carol Ornelas, the chief executive officer of Visionary Home Builders of California.

STATEMENT OF CAROL ORNELAS, CHIEF EXECUTIVE OFFICER, VISIONARY HOME BUILDERS OF CALIFORNIA

Ms. ORNELAS. Hello, and good afternoon, Chairman Frank, and members of the committee. My name is Carol Ornelas and I am the CEO of Visionary Home Builders of California. We are a nonprofit affordable housing developer and a HUD-approved housing counseling agency here in Stockton.

We also serve various communities throughout the Central Valley. We are here today to discuss with you the housing disaster that has hit our community. I can best describe this disaster by comparing it to Hurricane Katrina which hit New Orleans. The only difference is that Katrina was an act of nature while our housing crisis was manmade.

In neighborhood after neighborhood throughout Stockton, you will find foreclosure signs, for-sale signs, and vacant and neglected properties. Today, you had the opportunity to view some of those neighborhoods. I can only tell you that you saw the better neighborhoods. There are far more serious neighborhoods suffering throughout the City of Stockton.

Last December, Congressmen McNerney and Cardoza held a foreclosure event. Though December is usually a month of celebration, outside this event center, homeowners formed a line that wrapped around the building. When I walked into that event and took a look at the sea of people, I remember looking at my colleagues from the City of Stockton and saying, "There is a chill in this room. Take a look at this fine example of predatory lending." Of the people who were there, 99 percent were Latinos, African Americans, Asians, and our senior citizens.

By the end of the day, I knew this problem was huge because all of the families I worked with that day did not qualify for the initial loan and now their payments were going up and their incomes remained the same, and the housing prices had dropped substanially.

How did we get here? The median income for the City of Stockton, for a family of four, is $61,300. We are primarily an agricultural-based community with few high-paying jobs. We have an influx of Bay Area residents who could not afford to live where they worked.

The Central Valley became a bedroom community for these folks. Housing was affordable and clearly they were able to get more home for less money in the valley. Builders stopped building for our residents and built housing for the Bay Area workers with Bay Area salaries. The demand was great and the building industry was flourishing.

Today, we know that the Bay Area families did not qualify for their homes, just like the residents of the City of Stockton. They were lured in with high appreciation rates that had been occurring for the prior 4 years. They were also lured in with financially unsound loans which had low initial teaser rates which only lasted for 2 or 3 years, or worse yet, option ARM loans.

They are now victims of the subprime lending that hit our community, and the burst of the housing bubble.

Home buyers in our Latino community often had unique characteristics that made them easy targets. For example, Latino families are more likely to have multiple sources of income. A lot of lenders and brokers didn't want to take the time to qualify Latino families properly.

Stated income loans were prevalent. In many cases, if these families would have sat down with a housing counselor, they would have gotten a prime product rather than a subprime loan.

What is the effect on our neighborhoods and our community? There is a huge domino effect to this problem for us. Local governments are faced with lack of revenue from property taxes, construction, and sales taxes.

We still need to provide services to our citizens. Our bond rating has fallen and the City is doing what they can to survive in tough times. We hope we won't have to file bankruptcy like Vallejo was forced to do. The blight and vandalism in neighborhoods is evident throughout our communities with little or no signs of recovery.

This will only add to the additional decreases in property value.

The city of Stockton has passed an ordinance requiring banks and lenders to maintain their properties or they will be subject to code enforcement violations. We hope this will help some of the neighborhoods recover from the eerie feeling you get when you drive through the neighborhoods and see vacant home after vacant home.

We must not forget that many of our investors who have bought homes and then rented them to families have lost their investment, and many of these renters have been caught off guard. Even though the rent may be paid, the mortgage may not have been paid. The sheriff knocks on the door and informs them that they must leave.

These families are then left to deal with not receiving the rent back, or the deposit. Remember, this crisis affects everyone. If you take a minute and count how many jobs or services are affected by our foreclosure, it is many.

We must remember the stress that has affected our families and our community. Domestic violence is up. There is a greater need for mental health services and medical attention for our families and our children.

Our efforts today, including those by the industry, are not working. My counselors face an uphill battle every time they work with a family struggling to keep their home.

You have read the stories about our troops being sent to battle without proper equipment to fight the war. Our counselors have been sent into their own battle without much help either. We were told that banks and mortgage companies would work with us, yet somewhere along the way investors, servicers, and loan mitigation departments failed to come through.

National foreclosure solutions are not a one-size-fits all. Northern California and the Central Valley have unique challenges.

We need Congress to closely monitor the situations and be committed to continuous action over the years. For example, The Hope for Homeownership Act is a foreclosure rescue product that will run through FHA. In order to qualify, the borrowers's loan must have originated prior to March 1, 2008.

This program is slated to begin October 1st. Banks are telling us it is going to take months after that date to get ready. This program is voluntary, so banks and servicers may not choose to use the program.

Here is how it will work in our community. The bank agrees to write down the principal of the loan to 90 percent of the current apprised value. They are allowed to go lower if it makes the loan more affordable for the borrower. The borrower is then refinanced into a fixed rate FHA loan program.

The borrower has to share a set amount of the appreciation with FHA, which is understandable. But here is the catch. The homes in our area have lost so much value, and families are already so far underwater, that banks may not be willing to use the program.

Here is an example. A house was purchased in 2006, valued at $400,000, and the loan amount is $375,000. In 2008, the home is now valued at $225,00 and the family still owes $375,000 because it was an interest-only loan; 90 percent of $225,000 is $202,500. That means the bank would have to write off $172,500 to get the LTV back down to 90 percent. Because of the incomes in the Central Valley, they may even have to go lower.

We will need to take a further look into this bill, and hopefully amend the bill, to really help our communities that were hit the hardest.

As with any disaster, we must begin the healing process. We believe that the stimulus bill will be good for our community. We must make sure that Stockton does receive adequate funds that will be allocated to the communities hit the hardest.

I hope being number one will put us on the list of receiving the allocation that is so desperately needed.

The $4 billion of CDBG funding that will go to the nonprofits to rehab foreclosed properties is so important to our community. As a nonprofit affordable housing provider, our mission has always been to provide safe and decent housing. The vandalism that has occurred in these foreclosed homes should not be passed on to the new homeowners.

By purchasing these properties and renovating them, we will pass the keys on to homeowners to enjoy their new homes, instead

of having a homeowner who is worrying about unaffordable repairs needed for the home.

In conclusion, there is much to be done in order for our community to bounce back from this disaster. I know our community is resourceful, but we must learn from this lesson and look to the future to avoid the pitfalls that may be lurking.

Continuing homeownership education is crucial. Every homeowner should be required to attend the workshops and meet with a housing counselor to explore the options available to them.

Every homeowner must be educated to understand exactly how much mortgage they can afford in order to keep their home for the long term, not just buying a home that they can only afford to live in for 2 years, and then lose their home in a traumatic foreclosure.

We must rely on the Government for greater accountability in the mortgage servicing industry. Many of the efforts so far, especially at the Federal level, rely heavily on the voluntary participation of investors, lenders, and servicers.

Mortgage servicers are the lifeline between the borrower and their rescue options. Yet our experience shows that many servicers aren't willing to accept even basic modification requests.

Others are slow to respond, leaving our clients to rack up high fees while they wait. On the other hand, where we have a servicer that is willing to work with us, it makes all the difference. This is how we are able to save families from foreclosures. We must take another look at our underwriting criteria if we are going to move these homes from foreclosure to homeownership.

The Governor recently announced a pool of funds to be used in the hardest hit areas. To date, not one loan has closed. Why? I believe we went from extremely loose underwriting guidelines to very tightly regulated guidelines.

There needs to be a middle ground. We did many FHA loans in the past, so let's look at what worked and what didn't work and find the middle ground.

People are not perfect and sometimes there are bumps along the way. But that does not mean that they cannot be responsible for a mortgage loan.

I just want to share with you one highlight, if there can be one in the midst of disaster. The City of Stockton has always had a downpayment assistance loan program and has made hundreds of loans to low-income buyers. All users of the downpayment assistance program must participate in a homebuyers education class provided by a HUD-certified housing counseling agency. Throughout this housing crisis, we can proudly say that out of hundreds of loans, there has been only one foreclosure.

We can attribute that success rate to the requirement of housing counseling and the use of prime loans. And we must applaud these families because they were all low-income families. Maybe the market should take a look at this fine example.

The task of cleaning up our neighborhoods will not be easy and will take time, but we must learn from our lessons and move on. We can bring back the dream of homeownership. Thank you.

[The prepared statement of Ms. Ornelas can be found on page 92 of the appendix.]

The CHAIRMAN. Next, we have Pam Canada, the chief executive officer of the NeighborWorks Home Ownership Center here in Sacramento.

STATEMENT OF PAM CANADA, CHIEF EXECUTIVE OFFICER, NEIGHBORWORKS HOME OWNERSHIP CENTER, SACRAMENTO REGION

Ms. CANADA. Thank you. I would like to begin by thanking Chairman Frank and Chairwoman Waters, and the entire Financial Services Committee, for their leadership in getting H.R. 3221 passed.

I would especially like to thank the committee for including the allocation of $3.9 billion in CDBG funds, known as the Neighborhood Stabilization Fund, to be allocated to communities for redevelopment of abandoned and foreclosed properties, investing in neighborhoods with measurable and lasting impact. And the additional funding for housing counseling through Neighborhood Reinvestment Corporation that will provide help to thousands more families that are struggling to preserve their homeownership.

Welcome to Stockton for this important hearing to address the impact of the foreclosure crisis.

NeighborWorks HomeOwnership Center is a premier member of the NeighborWorks network of not-for-profit organizations chartered by Neighborhood Reinvestment Corporation. And we carry out a mission of work to provide stable, sustainable homeownership. H.R. 3221 included funding to support foreclosure prevention counseling, and this meets a critical need for struggling homeowners in Stockton, the Sacramento region, the State of California, and across our Nation.

The most recent numbers show us that 1,300 homes go into foreclosure every business day in California. Thank you for including counseling funding that will allow thousands more families to be served by qualified housing counseling agencies, and undoubtedly preserve homeownership for hundreds of people in the Central Valley.

Stockton and the Central Valley have been particularly hard hit, as has been discussed here today, consistently listed in the top of national rankings for the number of foreclosures.

There was a preponderance of subprime lending activity in Stockton and minimal prepurchase education was offered or available in the Central Valley to mitigate this predatory practice.

Home buyers, up and down the Central Valley, and throughout our Sacramento region, were told they better buy now or they will miss out. So they grabbed the apparent opportunity to get that piece of the American Dream and bought a home that was not affordable for them. On the very first day they closed that loan and moved in.

To get the home they wanted, buyers used available subprime loan products with teaser rates and exorbitant adjustments over a short timeframe. They got downpayment assistance funds that inflated the sales price, and they used Option ARMs that were affordable only for the first 6 months if they paid the minimum amount due.

Rising home prices in the Central Valley created a sense of urgency for new homebuyers and they were easy targets.

If more of these new homebuyers had received quality, multilingual, nonbiased homebuyer education, such as that provided by NeighborWorks certified home counselors, they would have been equipped to make informed choices about their lender, their financing options, and their affordability.

Prepurchase education is the ultimate foreclosure avoidance action for homebuyers. We encourage the committee to lend its support to this work. The challenge remains in Stockton and the Central Valley, and indeed, across the Nation, to create informed consumers and foreclosure-resistant borrowers.

This is accomplished through quality prepurchase homeownership education. Funding for this counseling is minimal yet its impact is extraordinary and should be central to all housing programs.

One of the first large foreclosure prevention workshops offered in the Central Valley was held here in the City of Stockton and sponsored by Congressman McNerney and Congressman Cardoza, along with State Senators Machado and Agazharian.

NeighborWorks was pleased to provide several certified counselors to address the questions of some of the approximately 500 people who attended that one workshop, and we have continued to participate in many more workshops of this type throughout our six county region.

Another event in Stockton with the Governor and Secretary of Treasury Paulson, featuring one of th successful families that had come through foreclosure prevention counseling with our agency.

In early 2007, in response to an overwhelming demand on our available capacity, we created a NeighborWorks Foreclose Prevention Workshop that we continue to hold every single week at our homeownership center, delivered in English and Spanish and Russian. To address the diversity of our region, we have partnered with another nonprofit to provide client referrals along with translation services, which now allow us to provide our education and counseling services in 10 different languages.

Recently, we were an invited participant at a small gathering of servicers and counselors, hosted by Commissioner DuFuchard at the California Department of Corporations. This was an open and productive sharing of challenges and solutions between the represented companies, with everyone agreeing that regular meetings and open dialogue needed to continue, and the commissioner has offered to host quarterly meetings with solution-oriented agendas.

We also met with HomEq Servicing, a large servicing company that has an office in the Sacramento region. We spent 4 hours at their shop discussing criteria for loan modification considerations, challenges of counselors, borrowers, servicers, and investor issues. And we have been collaborating with the California Bar Association for legal assistance.

These examples of collaborative efforts with practical and realistic sharing of challenges and solutions among invested participants will help move us all forward towards diminishing the foreclosure numbers in the Central Valley and the State of California.

With respect to H.R. 3221, it is imperative that lenders participate in the Hope for Homeowners Program. From the very day this was announced, we began receiving many calls and inquiries from homeowners who are hoping they can be included in this program and keep their home.

There are eligibility criteria for the borrowers, as Carol just mentioned, but it still comes down to the servicer and investor agreeing to accept a principal shortfall. If we can't get them to agree now to a reasonable loan modification that preserves their principal, it seems unlikely there will be easy agreement when they are asked to accept a significantly reduced payoff.

We urge the committee to keep the dialogue going with lenders and investors, as much as possible, so they can see the advantage of participating in this important program.

The Neighborhood Stabilization Fund is an important component of the bill and represents a significant opportunity for the Central Valley and many other communities to take action in areas that are now blighted by foreclosed and abandoned homes.

We ask that the Financial Services Committee members ensure that the best and most current data is used when developing the formulas for the CDBG funds.

When thinking of solutions, one thing is clear. Homeowners, working with certified housing counselors, need more time to resolve these issues with their lenders. One such proposal in Congress now is H.R. 6076, the Home Retention and Economic Stabilization Act, sponsored by our local Congresswoman, Doris Matsui.

It calls for a time out on foreclosure proceedings for those homeowners who are current in their payments, giving eligible borrowers a conditional deferment period and a window of opportunity to preserve their homeownership. We encourage you to continue to look at that bill and consider it positively.

We request that you encourage lenders/servicers to participate in bulk REO discounts for sale to capable and experienced organizations such as NeighborWorks Sacramento and Visionary Home Builders in Stockton, that would refurbish and resell to low- and moderate-income families for homeownership.

This would reduce the inventory held by the lender, build homeownership opportunities for low- and moderate-income families, and address the growing number of vacant properties that are lining our neighborhoods.

The negative impacts of foreclosure on communities are far-reaching. Not only are people losing homes, communities are suffering economically, physically, and socially.

Communities suffer from increased crime; having multiple abandoned homes is proven to have a direct effect on the rise of crime in communities. Cities and counties are negatively affected, not only from the added services required, but also from the lower property values caused by foreclosed homes, that have led to a smaller tax base.

Area youth are displaced. A hard-hit victim of foreclosure is the children. Parents' stress seeps down to their children and manifests in many difficult ways, as was previously discussed by the earlier panel.

Communities are blighted by neglect. Properties and whole neighborhoods are deteriorating. These neighborhoods are struggling to hold on as the crisis continues to threaten to unwind their strides forward to a healthy thriving community, and the investment that will be lost over the years.

Finally, we ask that you resurrect the antipredatory lending legislation. Yes, area lenders have tightened their underwriting criteria for now, and subprime lending activity has been reduced, but these are cyclical, and if there is an opening, when the market returns there will be nothing in place to stop or monitor this destructive practice.

The Central Valley will benefit from the Neighborhood Stabilization Fund, the housing counseling funds, and would also benefit from the opportunity for REO bulk sales at discounted prices.

We have hired and trained six additional counselors, bringing our total now to eight counselors who are certified and trained on staff, thanks in part to funding raised by the California Reinvestment Coalition and from the National Foreclosure Mitigation Counseling funds. We have partnered with Washington Mutual, Citibank, Bank of America, and most recently, Countrywide, to provide our counseling services in Stockton. We have been working to build funding and resources from area government and NeighborWorks America to allow us to move forward with our plans to expand with a NeighborWorks branch here in Stockton, in addition to our Sacramento homeownership center, but funds are not fully available at this time.

New interest is building again by first time homebuyers who see the opportunity to buy. Our prepurchase education numbers are rising. Last year, we funded $1.8 million in downpayment assistance funds, and we are seeking more capital to fund this program as now the market opportunity and affordability is available for some.

Thank you for this opportunity to address this field hearing of the Financial Services Committee.

[The prepared statement of Ms. Canada can be found on page 66 of the appendix.]

The CHAIRMAN. Our next witness is Patty Amador, the president of Ambeck Mortgage Associates. Pull the microphone closer. Just pull it closer to you. Don't lean forward.

STATEMENT OF PATTY AMADOR, PRESIDENT, AMBECK MORTGAGE ASSOCIATES

Ms. AMADOR. Thank you. First of all, thank you for inviting me to participate today, but most importantly, thank you for your attention and your concerns regarding what is an extremely critical situation here, in the Central Valley.

On August 4th, I sent an e-mail to our local congressional office, for the attention of Congressman Dennis Cardoza. It was subsequent to the passing of H.R. 3221 and the pending of H.R. 6694 as they were referred. I would like to share that e-mail with you today:

"Hi Lisa. It has come to my attention that there is legislation pending that would revive the use of the Nehemiah and downpayment assistance programs, H.R. 6694. I would like to take this time

to voice my support for passing this bill. Why? Not because I necessarily agree with the basis of the program.

"Having been in the mortgage industry for the last 30 years, and being old school, I believe that homebuyers are better homeowners when they have to plan their finances and save for the purchase of their homes.

"Unfortunately, right or wrong, within the last few years, we have created a generation of home buyers who do not financially plan or save for the purchase of a home.

"This not minimizing the desire to own. Programs such as Nehemiah, as well as many more, have been made available, eliminating the need for personal funds. The reason I support the continuation of Nehemiah, at least at this juncture, is that very reason. Potential homebuyers, at least first-timers, are not prepared with the money it takes to buy. That doesn't necessarily mean they can't afford or won't make the payment.

"I am extremely concerned about the current state of our economy. I believe that if tools, such as Nehemiah , are now eliminated, what recovery we may be experiencing because of affordable home prices will be squashed.

"This will send our housing situation into further crisis and ultimately further damaging our economy. Regardless of how I may feel about the program, I have to say that I really struggle with the logic, or the lack of taking the Nehemiah downpayment assistance program off the table at this time, 10 years after its inception.

"If this decision was a measure taken to minimize the default risk, I believe that prudent underwriting practices can offset the majority of risk that may be considered inevitable as a result of downpayment assistance. Perhaps this is where we should now put more focus.

"I sincerely appreciate your time in considering my concerns and ask that you forward them on to Dennis as well as others who have the opportunity to protect the mainstay of our economy, the housing market. Patty Amador, Ambeck Mortgage Associates."

I do appreciate the efforts of governments, both local and Federal, in attempting to resolve this foreclosure crisis. Personally, I don't have much optimism, and I am an optimist, for the success of preventing what I consider to be, for the most part, a train too far down the track.

The success of most programs developed to date is predicated on lender cooperation and perceived value on the part of the homeowner.

So far, we haven't seen much of either. There is no doubt that some foreclosures will be prevented through the efforts of these programs, but I believe that the true resolve is within what we are seeing and experiencing in renewed interest and activity with new buyers.

As devastating as this foreclosure market has been, it has ultimately brought housing prices back down to realistic levels, affordable levels, and there is renewed interest in qualified homebuyers to purchase homes with stable, traditional loan programs.

I believe that we are experiencing a turnaround in the housing market. But as I said in my e-mail to Congressman Cardoza, I am

concerned about the attack on and the elimination of programs buyers have grown to rely on.

I am concerned about the increases in downpayment requirements, increases to closing costs, and increases to monthly payments affected by increased mortgage insurance lately, and each day seems to bring changes that limit lending.

I won't argue that lending practices and lending programs have definitely contributed to the problem facing us today. Unfortunately, a lot of these financing tools have been pegged as the villain, the sole cause of this crisis. I can assure you that the mere existence and availability of these programs was not the problem.

We have had flexible loan programs in the past. They are a lot of what brought us out of the housing crisis of the early 1980's, when prime was 22 percent and mortgage rates were 16 and 17 percent.

My message is that we cannot bring this market back by shutting buyers out, by limiting their options, or again, pricing them out of the market. Now is not the time. Eliminating downpayment assistance programs and increasing downpayment and closing cost requirements, will once again make homeownership unaffordable.

I do understand the concerns of risk due to no or little money invested, but can we be any worse off than the conditions of today? I believe putting qualified buyers together with reasonable but flexible programs, while utilizing prudent underwriting, will stabilize values and encourage those who can afford to stay in their home to stay, with the hope of regaining value.

I believe the result will strengthen our real estate market, our economy, and ultimately provide the basis to resolve our foreclosure crisis.

Again, I thank you for your time and for this opportunity to participate.

[The prepared statement of Ms. Amador can be found on page 58 of the appendix.]

The CHAIRMAN. I am going to respond. I am going to be meeting afterwards with some people concerned about the downpayment assistance program, and it has been mentioned several times, so let me just make clear to people where we are.

It has headstrong advocates. Actually, perhaps the unlikely duo of Congressman Gary Miller and Congresswoman Maxine Waters have teamed up to be very strong advocates for it. In the bill that passed the House, there were no restrictions on it. When it got to the Senate, they adopted a provision completely outlawing it, partly at the strong urging of the Bush Administration.

The Commissioner of the Federal Housing Administration, Brian Montgomery, was very eager to have it banned, and the Senate agreed with him. We did not agree, but in trying to put a bill together, you can't always get everything you want, and when we had the ardent opposition of both the Administration and the Senate, we lost out.

At the same time, however, the Senate also completely banned any ability on the part of the FHA to adjust pricing in their insurance for risk. The FHA hated that. So the FHA loved the ban on downpayment assistance, and hated the ban on risk-based pricing. That seemed to me to offer us an opportunity.

So the bill that was referred to, H.R. 6994—we have copies of it—will replace both bans with middle ground, and it will pass the House, I can guarantee you.

What you want to do now obviously is talk to your Senators. We think it has the approval now of the Secretary of HUD, and it does reinstate the downpayment assistance program. What it will say is this, but not exactly as it was, and it did have a high default rate. It says that finance downpayment assistance will be automatically okay for people who have a credit score of 680 or above. Now that means you still have to look and see if they make the payments, but a 680 credit score.

If you have between 620 and 680, you also will be able to get it, but there may have to be some higher fees because there is an insurance principle here, and in Fiscal Year 2010, which will begin next year, it will allow loans below a 620 score if the HUD Secretary certifies this can be done without the need for a credit subsidy.

So it also requires anybody who wants to offer downpayment assistance to make available counseling regarding the responsibilities. It doesn't mandate that the borrower take it but it does mandate that they be offered.

The House will pass that. It isn't everything everybody wants, but nothing ever is. And I would say this: One, help us by lobbying the Senate; and two, if we are able to get this preserved to that extent, as I believe we will be, it will be very important for people to make sure it is not abused. If it is in place and it works well, we will then be able to go forward with it. So that is where we are. With that, I am going to recognize Mr. McNerney for the beginning of the questioning.

Mr. MCNERNEY. Thank you, Mr. Chairman, for those comments. Carol, I'm going to start off with you, if you don't mind. I think you have done a great job in the community and it has been a pleasure to work with your organization, and Pam, also, in our workshops. You donated your counselors' time. So I definitely appreciate that.

What challenges do you face, or have you faced, over the past months in dealing with clients?

Ms. ORNELAS. There are a lot of challenges out there, but I think some of the items that we are really, really concerned about are some of the modifications that are coming through. We really weren't seeing very many modifications, clear up to June, and then they started to creep in there. But we are seeing, we first saw 1 year, then we saw a little bit at 3 years, and then very rarely do we see a 5-year modification.

And, of course, our counselors do counsel the families on, you know, what is their best option, after seeing those modifications, and to get a 1- or 2-year modification, I am very concerned, because we are going to be in the same place just 2 years down the road.

The 5-year modification? Well, you know, we really would like to see more 30 years, you know, rewriting of the families' loans, and that is a big challenge, and the fact that our city, our house values have gone down tremendously, and the fact that so many families did not qualify, initially, for that loan, looking at some of their alternatives, there really aren't alternatives for them. And that is

sad to say, because we would like to have a better success rate and say yes, we are putting the families in a better situation.

But that is very, very difficult to say today.

Mr. MCNERNEY. So it sounds like the biggest challenge is that so many people really weren't qualified for the home they were in. I mean, that sounds like the basis of what we are talking about there.

One of the things that you said, that was fairly impressive, was how effective counseling has been as a preemptive situation. You said you only had one person, or one family who went into foreclosure when they bought a house, after being counseled on what was available, and I would like to go to George here, and ask how much difference, in your opinion, would it have made, if all the mortgage brokers were CMC certified, or had some way to enforce counseling on potential buyers?

Mr. DUARTE. Thank you. It would make a tremendous difference. One of the problems that occurred with the dropping of the rates and the refinance boom, the whole frenzy starting up, was that so many people got into the business at a very low barrier of entry. Many people jumped in and became Realtors. Many people jumped in and became loan originators for banks, mortgage brokers, who had no intention of being professional, and no intention of doing the right thing for the client, as actually is required by the DRE license and the fiduciary requirement that exists here in the State of California. Many people just—and unfortunately, that environment encouraged many quick buck artists who were only in it to maximize their income for that transaction, and didn't have the intention of doing the right thing for the consumer.

The problem with the stated loans, it occurred, it was easy to get the loans, but many of those originators forgot, or never intended to tell the consumer, that well, this is what happens in the first 2 years, and this is what happens after the loan adjusts. Can you afford the payment? They very frequently forgot to ask that question. This is what the payment is. Can you afford it?

Mr. MCNERNEY. I mean, some of what we hear is that, yes, these mortgages were bought and sold at a higher level, that the people didn't really have a vested interest in seeing that the loans were given to good borrowers. But what you are saying is that there is a significant amount of cause also at the local level, with nonqualified and nonprofessionals who were acting as brokers or agents of some kind?

Mr. DUARTE. That is correct. And one of the benefits is that all these people now, or a very large percentage of these people who got into the business are now out of it, or on the way out of it, and the only people who should be in the business of loan origination, and dealing with clients, are people who intend to be professional, and who intend to stay in the business for a long time, and have the intention and the best interests of the consumer in mind at all times, and very frequently—

Mr. MCNERNEY. Is there, for CMC qualification, is there any indication that they would put people in counseling who needed it? Or I mean, how would that work in terms of getting the people who want to borrow into the right loan, if they think they can get something that they are not really qualified for?

Mr. DUARTE. Well, actually, that is part of the whole prequalification procedure, that a loan origination professional would in fact do on a regular and consistent basis in discussing with potential clients who wish to purchase a home, what their resources are, what their income is, what their debt is, and what their credit score is.

How much can they actually afford per month? And then base the recommendation of a particular loan program or a loan amount upon what they have to work with, and not necessarily what conceivably they could get.

Mr. MCNERNEY. So a mortgage broker would have to act as a counselor is basically what you are saying.

Mr. DUARTE. Essentially, that is true. A professional—

Mr. MCNERNEY. Carol, do you want to comment on that?

Ms. ORNELAS. I think we have to have the arms length. I think the housing counselor is the housing counselor who sets out the options to the potential buyers. One question that was asked of me at one of our prepurchase counseling sessions was, "Carol, how do you know who the good mortgage lenders are and who are the good real estate brokers?"

And I said, "Well, I don't really have an answer for you, but I do have an answer that will help you out as a consumer, and that is that, number one, you are here at this education class, and at the end of the day, at the end of your training here, we are going to have looked at your income, we are going to have looked at your home, your score, your FICO score, and we are going to have run a mortgage credit report on you, and when you leave here, you are going to know how much you can afford in a loan based on an interest rate that is fixed for 30 years. And when you go visit your lender and when you go visit your realtor, you hand him this certificate and this is your key to ownership. If they come back and tell you that they can't find you something like that, walk away, because this is what you truly qualify for."

Mr. MCNERNEY. So I mean, Patty, you mentioned earlier, I think that you have an old school philosophy. Does that sort of mesh okay with that philosophy?

Ms. AMADOR. The interesting thing with the business, and, you know, those who are putting borrowers into loans that they really don't belong in, is it goes really, really deep. I mean, you can't believe the motivations. If you increase their margin on adjustable rate mortgage, you make more money. If you add to the prepayment penalty, you make more money. We have actually seen where we have had Realtors approach us and say, if I send you my clients, you know, what will I get out of it? Can I get a fee?

Ms. SPEIER. Isn't that a kickback, though?

Ms. AMADOR. A kickback.

Ms. SPEIER. Isn't that illegal?

Ms. AMADOR. Oh, sure, it is illegal; but it is going on. I mean, you know, you talk about prosecution. Well, it is only as good as the consequences to that. You can prosecute them but to what—

Ms. SPEIER. Would the gentleman yield for a moment?

Mr. MCNERNEY. Yes.

Ms. SPEIER. I think this prosecution issue is really important, because until we address that, bad behavior will continue to go on,

because as long as you have no skin in the game, you don't care. And I would like to just suggest, that one of the things we need to look at is very similar to what we did in the area of child support enforcement. Until the Federal Government offered inducements to local district attorneys to go after the noncustodial parent who wasn't paying their child support, where they would benefit financially, there wasn't any enforcement.

We have to create, on a Federal level, some incentive for local DAs and AGs to go after folks who clearly violated the law, and so far we have done none of that. I don't know of one mortgage broker, that there has been an action filed against them in a court of law.

Ms. AMADOR. But it needs to go deeper than that.

Ms. SPEIER. All right.

Ms. AMADOR. Because what we have seen in our local areas, we have actually increased the costs of our recording fees to fund that prosecution for fraud, mortgage fraud and other things. And they are prosecuted and they are found guilty, and then they are sent home with ankle bracelets, and then, you know, a couple of weeks later, they are out at the movies and they are not being punished. There is no consequence. The honest truth is, the only difference between an ethical lender and an unethical one is conscience, because there is no legal deterrent.

Mr. CARDOZA. If the gentlewoman would yield? Patty, isn't it true that some of these things aren't even illegal? Putting someone into an ARM that is more risky is not any more illegal—I mean, just the recommendation, or the influence. And when there was a 30 year fixed rate available but they were put into an ARM because they were getting more commission for that ARM, that was a real challenge. And it is the ethics of the individual broker. They weren't committing a crime by doing that. It was just immoral to do that.

Ms. AMADOR. That is 100 percent correct. There is no law to prevent that.

Ms. SPEIER. Well, there is a fiduciary duty, and I would argue that a good attorney could argue that they were not complying with their fiduciary duty, they could lose their license, they could be banned from the practice for a period of years, and maybe for their lifetime. You can create, and we have done that in many professional settings, enough of a stick, so that behavior is curtailed.

Ms. AMADOR. I would love to see a really big stick. But I will tell you, in all honesty, we have had situations that have been reported to the Department of Real Estate, and their response is, you know, we really don't have the time to go after those type of minimized things. We have bigger fish to fry. And that is a quote.

Ms. SPEIER. Well, this is a real big fish to fry.

Mr. MCNERNEY. Well, it is now. Madam Chairwoman, I am going to yield back the balance of my time.

Ms. SPEIER. [presiding] Thank you. Congressman Cardoza.

Mr. CARDOZA. Thank you. I want to start with Ms. Ornelas, because the information that you provided us with, and Mr. Frank has had to step out for just a second again, but the point that you made, that the bill that we passed, it was the best that Barney would get done, as I said in my opening statement, but it won't

work in our community because, you know, the loan-to-value ratios have dropped so badly, that so many of our mortgages are underwater by so much. The 50 percent that is in Merced and San Joaquin County and Stanislaus County just means that lenders simply can't write down that much—it is so much greater than the 90 percent challenge.

I guess there are two questions. First of all, Patty and Pam, have you seen much of that? Do you think there is much hope that this is going to work out in many cases? There are some cases where it might, but what is your analysis? This is really important for the chairman to hear, so that he can use it in his battle with the Senate. Because I will tell you, he was advocating for a whole lot more. And he is a good, skilled fighter, and we just ran into absolute roadblocks when it came to making these corrections that he wanted to do.

Ms. ORNELAS. Who would you like to—

Mr. CARDOZA. Well, all three of you can comment.

Ms. ORNELAS. You know, this is a really difficult situation that we are facing here, because looking at some of these loans, even if we spread it out for 50 years, we still couldn't come up with the right payment that the family needs. To write it down, we are still going to have difficulty with the income that families have in Stockton. I am talking Stockton, San Joaquin, and Central Valley. We have some of the lowest incomes for the whole State. So, you know, that is a problem as well.

But what I say, more than anything, is shame, shame, shame on lenders, because when they did put families into these types of loan product, I go back and I tell people, how many of you know, based on the job market, that someone is going to get a $5,000 increase in a year? More than anything, you see people fighting over 50 cents more an hour, or $1 more an hour. That did not substantiate the increase that was going to happen in these families, in this loan.

So is there, like we heard from our Congresswoman, a fiduciary responsibility was heavily on those people who made those loans, and I feel that they should be the ones that should write down those loans to whatever is affordable.

So whatever it takes, this may not work, and that is why, in my statement, I say we may need to look at the bill and adjust it, especially for those areas hardest hit.

Ms. CANADA. I guess I will sing the song again about prepurchase education, because it does take a big stick, it does take a lot of, sometimes, things beyond our control, to get lenders, Realtors, mortgage brokers, and others, if they want to do the wrong thing, they have ways to do the wrong thing. But if you are an informed homebuyer, if you are an informed consumer, and someone says to you, you can buy this $500,000 home, and you are only making $45,000 a year, if you have been through prepurchase education, you are going to take a step back and say, whoa, how can I do that?

Well, you know, the lender can lay it all out for you and you will know better. We have consumers come back, time after time, after they have been through the prepurchase education, and say to us, well, yes, but I like that house over there, that four bedroom in the

neighborhood that I like, and it is above what you told me but this guy said he can do it for me.

And we show them again, we lay it all out—here is your income, here is what you can afford, here is an adjustable, here is these things. Informed consumers can make good choices, and do we have control on mandating housing counseling for prepurchase, especially if it is interest-only, if it is an adjustable that adjusts any more frequently than 2 years, there are requirements there that can be installed and I would suggest that the committee look strongly at that.

Ms. AMADOR. My understanding of your question is basically the programs, and the effectiveness of the programs in place?

Mr. CARDOZA. There are so many questions I want to ask. We have a long relationship. I was doing real estate when you were starting out as well, and it evolved so greatly. We were so tight, back when I was a Realtor, about how you qualify for a mortgage, and it was about 90 percent of what I did as a Realtor was qualify folks, because the Central Valley has always been challenged, having folks that are on the lower socioeconomic stratas and trying to get them into affordable housing and all the rest.

And then now, when the values have plummeted, I just see it—I mean, we did the best we could, considering the political realities that we were facing in Washington with the Administration's opposition, and all the rest.

But I don't think that we are going to succeed, and my point is that I am advocating for—and the reason why I call it the "Katrina of California," and all the rest, is we are going to need some very dramatic steps. Ms. Speier was whispering to me, as a sidebar conversation, that this is never going to be enough here, and could spread to be more a calamitous situation if we don't solve it in those places where it has really gotten out of control.

We can argue about what needs to be done, but certainly, the resources need to be put in earlier rather than later. The changes need to be made earlier rather than later.

Now we have political realities that aren't going to change until January, one way or another. But we need to be prepared, and that is why the chairman came all this way. And so I guess within that context, Patty, give us the benefit of your experience.

Ms. AMADOR. Well, I think there are two sides to it. You know, you have the Government coming forward and really making an honest attempt to put programs into place that are going to benefit these individuals on the verge of losing their homes. The problem is you have the Government doing one thing, and you have lenders who are doing another, and what we find is they will take these programs that you have implemented, and they will either: One, say we are not going to participate in that, we consider it to be too much risk-based so we're just not going to play; or two, they again, as you are stating about risk base, they will price them beyond the affordability of the buyer. I mean, it doesn't matter whether they are in place or not. They just can't afford them.

We found with the FHASecure, that they price them to the point where they resulted in interest rates of 7 to 7.5 percent. You know, it wasn't a benefit. The same thing with regards to the rescue, you

know, program. We had someone say it earlier—the phones were ringing off the hook when it first came out.

Part of the problem is that the lenders, you know, how receptive are they, the servicers, to taking not only 90 cents on the dollar but paying a 3 percent fee on top of that. So now you're looking at a 13 percent reduction, when they won't even sit down with somebody who wants to negotiate and pay them a 100 percent. Renegotiate me at a 100 percent and, you know, I want to stay here. I have somebody on my own staff, who bought their home, put $50,000 down, they sold their previous home, put $50,000 into their home, and, you know, they are in the mortgage business, their income went down, and values, and they struggled with the lender—let me stay, you know, let us renegotiate. And they refused.

But yet they turned around and sold their home to somebody else at current market value. You know, it just—

Mr. CARDOZA. Doesn't make sense.

Ms. AMADOR. It doesn't make any sense. You know, you are asking them to reduce their—by 90 percent. Take 90 percent of appraised value today, pay a 3 percent fee, and, you know, I don't see them highly motivated to do that when, again, they are not willing to take 100 percent.

The other thing is, that is perceived on the part of the homebuyers is, you know, with the participation for further dollars, what we understand to be a 1.5 percent fee, I am still not sure how that is going to be implemented.

You know, the reaction has just not been very strong because they just don't see it as that great of a deal for them.

And so as much as it is, you know, again, very respected and appreciated that the Government is coming forward and trying to do these things, it needs to be tweaked to the point where it really makes sense for everybody.

I would like to address, you know, what you said with regards to FICO scores. You know, FICO scores are very subjective. They are based on employment and how it is construed to be stable, and is based on the length of employment. It is based on how much credit history that you have or don't have. You know, some people aren't big users of credit, which shouldn't be used against them, but it is because it doesn't, they don't result in a credit score.

We are now seeing, in addition to what HUD is doing, Fannie and Freddie are doing, we are seeing investors themselves putting restrictions on programs.

We now have investors coming forward and saying we will no longer accept nontraditional sources of credit. You know, what that is going to do is eliminate some borrowers, particularly Hispanic borrowers, because they are not big users of credit.

So like I said, as I said earlier, you know, it is constantly, constantly limiting the lending ability. I just don't see how we are going to come out of this, because as these properties continue to come on to the marketplace, and people are strongly interested in buying, how can they do that if we continue to pull these tools off the table.

Mr. CARDOZA. Mr. Chairman, I know I have gone way over my time. I just want to make one point, and that is that I introduced a bill right before the August recess that would require

NeighborWorks to make sure that the hardest hit areas had sufficient counseling resources.

One of the challenges that we have had is that even though we are the epicenter, we are ground zero, a calamitous situation, there has actually been a shortage of folks who are qualified to provide counseling services, and Ms. Speier and I have been talking about mandatory counseling services, especially for more risky types of mortgages that people might get into.

But here, we have just had a difficult time. That is why we have been intervening so significantly with these housing foreclosure workshops. But that is really trying to close the door after the animals are out.

We really need that kind of intervention and we need that support as we go forward, to make sure that folks have the ability to get those counseling services.

The CHAIRMAN. I did want to say to Ms. Amador, yes, we can do a better job of screening, but I guess I disagree with you. Your thrust seems to be that homeownership is this important goal, and you are very skeptical of restrictions. I think one of the mistakes we made was to encourage people to buy homes who should not have bought homes, who were not either financially or intellectually ready to do it.

And one of the problems we have had, and it has gone along with the denigration of renters, and I hear people say, well, you want homeowners because they care about their property. Most people who are low- and low-middle-income, in much of this country, are going to be renters. I wish it were the case that everybody could be a homeowner. But I also wish I could eat more and not gain weight. I wish a lot of things, and I get in trouble if I act on my wishes without taking reality into account.

And I think we have to understand that—and one of the things we have done as a result is we have not done enough for rental housing. Indeed, one of the things that we had in our subprime bill—and by the way, I will say this one thing, Ms. Amador. The Senate hasn't passed the antipredatory lending, and we passed ours, but that does not mean that the field is wide open because, to his credit, Chairman Bernanke of the Federal Reserve has promulgated a set of rules which will be in effect next year, which will do much of what we did, not everything, but there will be serious restrictions.

As a matter of fact, if Chairman Alan Greenspan of the Federal Reserve had done 8 years ago what Chairman Bernanke did 2 months ago, the exact same thing, we would not be in this crisis now.

So there is some hope that is coming there. But we have undervalued rental housing, and, you know, with some people, even if they show they can make it, what happens when the roof leaks? What happens when there are some other structural problems that you have? So I mean, homeownership is a good thing. But the other thing I would say is that you asked what is the alternative.

The FHA will be there. One of the problems we had was that the FHA, in 2002, issued 700,000 guarantees, and in 2007, 290,000. So we are going to get the FHA back in business, and that will be helpful.

I believe that what the Secretary of the Treasury is contemplating doing with regard to Fannie and Freddie will be helpful, in that it will emphasize the housing mission over their sort of private shareholder thing.

Yes?

Ms. AMADOR. I would just like to make one more point. First of all, I don't believe in just opening up the floodgates again. That is not the resolve. I am just trying to make sure that we don't continue to constrain the possibilities. But one of the things I think is to the benefit of the people trying to buy today, is we need to remember, they weren't the people out there trying to buy in those bad times, in those bad programs. I think they should be given a certain amount of credit, that they recognize that they were priced out of the market.

The CHAIRMAN. No question. I agree with that. The other point, though, is we also want to separate out one thing. Right now, there is a credit crunch going on that is a consequence of this, so it is hard for anybody to borrow. I mean, actually what happened is—look—the investor community overreacted. First of all, they bought stuff they shouldn't have bought. Now they won't buy stuff they should buy.

I mean, you know the story of the little kid who touches the stove and gets burned; he doesn't touch the stove again. The trouble we now have with the investor community is that not only won't they touch the stove again, they won't go near the bath tub, the refrigerator, or the toilet. I mean, anything that looks like it, they stay away from.

So we have that short term. Going forward, yes, we want to make this available, and I hope we can make the FHA, and the combination of the FHA and Fannie Mae and Freddie Mac—but recently, Fannie Mae and Freddie Mac, you mentioned some cost increases, and they were among the ones that were doing that. That is in part because they were in this crunch where they had to appeal to the private market.

I am hoping that out of what the Secretary of the Treasury is now talking about, that tension will be resolved in favor of the housing market, so that there will be less need of going into the private market, and not be under the same kind of pressure.

So I agree, we don't want to do it excessively, but I still think that clearly, a number of people who bought homes—look, you gave some of these examples, and you talked about counseling—the answer is they shouldn't have bought, and now they bought the wrong kind of mortgage, and other things. But yes, a smaller percentage of people should get into homeownership, I think, than we had before.

Ms. ORNELAS. Chairman Frank, I just want to leave you with two schools of thought for today. One of them is that we must understand income levels, and the people whom we were talking about today, a majority of them were our working people in our country. They were above moderate income for a lot of these cases. They are not the low-income people of our communities. Yes, low-income people did fall through to some of this but we must remember that low-income people didn't create this problem. It is our

working people who really believed that they are working to reach the American Dream. And the second thing that I—

The CHAIRMAN. By the American Dream, do you mean homeownership?

Ms. ORNELAS. Homeownership or a decent place to live.

The CHAIRMAN. Okay. Can I just say, let's define it that way.

Ms. ORNELAS. Decent place to—

The CHAIRMAN. The dream should be a decent place for your family, and that might be rental housing, because if we define it strictly as homeownership, we are going to get ourselves in trouble.

Ms. ORNELAS. And that leads to my second thing. For our community and the State of California, shame on us, because we have a housing element, that we look for that stick but that stick is not used. That housing element is a joke. We are supposed to submit that housing element because that shows the needs of our communities, and we should be building housing at any income level—

The CHAIRMAN. I agree with that.

Ms. ORNELAS. —so that people aren't starving to get into something they really can't get.

The CHAIRMAN. Let me add to that, and you mentioned stick. There is one other thing—and I work very closely with the home builders and they have very very supportive, and I think they recognize that if we want to expand homeownership beyond where we now are, we have to do a better job of making manufactured housing available.

One of the problems that I have found, and this committee has been working on, in the bill that passed—it has a lot of good stuff—one of the things it does is to make manufactured housing fully FHA-eligible.

Because the model for housing was 30 years, the ownership, etc. Manufactured housing doesn't meet some of the legal issues. When I was in the State legislature in Massachusetts, I found that a loan for a manufactured home was treated like a car loan, and one of the things our community has been doing has been to make manufactured housing more available. And then, of course, you also have the zoning restrictions, and the people who say, you know, don't put it near me.

So reducing the cost of housing is another way to do it. I mean, the costs aren't always the loans, etc. The actual physical basic cost has been a problem.

Ms. ORNELAS. And I can tell you as a parent, because I want to talk a little bit—our families in our community. I have a son who is graduating from college, and I have a 9-year-old. So I have a really, you know, different perspective here from different levels.

But I remember looking at where housing pricing was going here in California, and I was thinking, how in the world will my son, whatever career he chooses to do, could he afford to continue to live in California? Because those housing prices were unrealistic.

And then I looked further, and I looked at my 9-year-old, and said, by gosh, what will happen by the time he gets to the point where he graduates from college and is looking at homeownership?

We heard it earlier in the testimonies. That is what people were saying. If I don't get in now, I may never ever be able to get in there.

The CHAIRMAN. The 9-year-old is particularly important because he is probably the one you are going to have to move in with.

Ms. ORNELAS. Exactly.

[Laughter]

Ms. ORNELAS. Definitely.

The CHAIRMAN. Are there any further questions from any of the members? I really appreciate this. This has been a useful discussion as we go forward.

I thank all of the panelists, and I invite either the panelists or the audience, if you want to submit anything to us, the staff will be here, and you can also go through the three Members of the House who are here, and we thank you very much.

The hearing is adjourned.

[Whereupon, at 3:28 p.m., the hearing was adjourned.]

A P P E N D I X

September 6, 2008

Resume for Patty Amador

President and Owner of Ambeck Mortgage Associates since July of 1989.
Mortgage lending history since 1978

Licensing & Approvals:
Licensed as a California Real Estate Broker since 1989
HUD approved Direct Endorsement Underwriter since 1983 #8992
VA approved Automatic Underwriter since 1989

History and General Scope of Ambeck Mortgage Associates

Ambeck Mortgage Associates opened as a correspondent lender in July of 1989 obtaining HUD and VA approvals and warehouse lending lines to graduate to a mortgage banker by October of 1989. The general scope of the operation is to originate and close Conventional and Government insured loans on a retail basis. The company currently operates 2 retail branches with a total of 22 employees, comprised of 12 loan officers, licensed through the California Dept. of Real Estate and 10 salaried support staff.

Affiliations

Member of Mortgage Bankers Association
Member of Mortgage Lenders Association
Member of National Federation of Independent Business
Accredited Member of the Better Business Bureau
Member of Modesto Chamber of Commerce
Member of Turlock Chamber of Commerce
Member of Merced Chamber of Commerce

Patty Amador
Address to the Committee on Financial Services
September 6th, 2008

I would like to start today by thanking you for this opportunity to address the Committee on Financial Services. I appreciate that you are interested in hearing my opinions and I am very grateful that you are concerned about the foreclosure situation and the economic effects on our area.

I was asked to come here today and address this committee as a result of an email I sent to our local Congressional office, and for the attention of Congressman Dennis Cardoza. It was subsequent to the passing of HR3221 and the pending of HR 6694, as they were referred. I would like to share that email with you today:

August 4th, 2008
Hi Lisa-
Hope all is well with you, interesting times in politics. It has come to my attention that there is legislation pending that would revive the use of the Nehemiah and down payment assistance programs, H.R. 6694. I would like to take this time to voice my support for passing this bill. Why? Not because I necessarily agree with the basis of the program. Having been in the mortgage industry for the last thirty years, and being "old school" I believe that homebuyers are better homeowners when they have had to plan their finances and save for the purchase of their homes. Unfortunately, right or wrong, within the last few years we have created a generation of homebuyers who do not financially plan or save for the purchase of a home. This not minimizing the desire to own. Programs, such as Nehemiah as well as many more, have been made available eliminating the need for personal funds. The reason I support the continuation of Nehemiah, at least at this juncture, is that very reason. Potential homebuyers, at least first timers, are not prepared with the money it takes to buy. That doesn't necessarily mean they can't afford or won't make the payment.

I am extremely concerned about the current state of our economy. I believe that if tools, such as Nehemiah, are now eliminated, what recovery we may be experiencing because of affordable home prices will be squashed. This will send our housing situation into further crisis and ultimately further damaging our economy. Regardless of how I may feel about the program, I have to say that I really struggle with the logic, or the lack of taking Nehemiah/DAP off the table at this time, ten years after its inception. If this decision was a measure taken to minimize the default risk, I believe that prudent underwriting practices can offset the majority of risk that may be considered inevitable as a result of down payment assistance. Perhaps this is where we should now put more focus.

I sincerely appreciate your time in considering my concerns and ask that you forward them on to Dennis as well as others who have the opportunity to protect the mainstay of our economy, the housing market.

Patty Amador
Ambeck Mortgage Associates

I do appreciate the efforts of governments, both local and federal, in attempting to resolve this foreclosure crisis. Personally, I don't have much optimism, and I am an optimist, for the success of preventing what I consider to be, for the most part, a train too far down the track. The success of most programs developed to date is predicated on lender cooperation, and perceived value on the part of the homeowner. So far we haven't seen much of either. There is no doubt that some foreclosures will be prevented through the efforts of these programs, but I believe that the true resolve is within what we are seeing and experiencing in renewed interest and activity with new buyers. As devastating as this foreclosure market has been, it has ultimately brought housing prices back down to realistic levels, affordable levels and there is renewed interest in **qualified** homebuyers to purchase homes with stable, traditional loan programs. I believe that we are experiencing a turnaround in the housing market. But as I said in my email to Congressman Cardoza, I am concerned about the attack on and the elimination of programs buyers have grown to rely on. I am concerned about the increases in down payment requirements, increases to closing costs and increases to monthly payments, affected by increased mortgage insurance requirements. Separate from the changes to HUD programs, conventional loan costs continue to increase as well with hits with what is referred to as "risked based pricing". And they have there own program restrictions. Serious, well-qualified investors are being restricted from borrowing if their portfolio exceeds 4 financed properties including their primary residences, a policy HUD has since adopted. Lately, and each day seems to bring changes that limit lending. I won't argue that lending practices and lending programs have definitely contributed to the problem facing us today. Unfortunately, a lot of these financing tools have been pegged as the Villain, the sole cause of this crisis. I can assure you that the mere existence and availability of these programs was not the problem. We have had flexible loan programs in the past, they're a lot of what brought us out of the housing crisis of the early 80's when prime was 22% and mortgage rates were 16 & 17%. In my opinion, the real "Villain" of these programs was their misuse, fraudulent practices, programs placed in the hands of the unethical, greedy and unscrupulous individuals of our industry, and those uneducated in the aspects of lending. When you combine this with a population highly motivated by the dream of homeownership along with the "get rich quick" crowd, you have "motivation meets opportunity" and a formula for the "perfect storm".

My message is that we cannot bring this market back by shutting buyers out by limiting their options or again pricing them out of the market. Now is not the time. Eliminating Down Payment Assistance programs, increasing down payment and closing costs requirements, and increasing monthly payments through increased mortgage insurance premiums will once again make homeownership unaffordable. I do understand the concerns of risk due to no or little money invested, but can we be any worse off than the conditions of today. I believe putting **qualified** buyers together with reasonable but flexible programs, while utilizing **prudent** underwriting, will stabilize values and encourage those who can afford to stay in their home to stay with the hope of regaining value. I believe the result will strengthen our real estate market, our economy and ultimately provide the basis to resolve our foreclosure crisis.

We're here today to discuss and suggest what we believe could mitigate or prevent further foreclosures.

My suggestions to this are:

1. Have the federal government postpone the elimination of Nehemiah, and increasing the down payment requirement on FHA loans for a minimum of at least 2 years.

2. Have local and state entities review the income qualifications of their bond programs with the consideration of increasing the maximum income limits, opening their Down Payment Assistant programs to a wider range of buyers.

3. Require lenders of existing loans, pending foreclosure, to offer modification to the notes of motivated and qualified owners reducing loan balance and respectively their monthly payments based on current market value before they are able to market the property and accept short sale offers at current market value. At their option a silent second can be placed after the modified first. This will give them the opportunity to regain losses up to the amount between the original loan balance and the modified loan amount, while keeping the homeowners to an affordable level.

4. Offer owners, facing the inevitability of losing their home to foreclosure, an incentive to provide the lender a Deed in Lieu of foreclosure. This will eliminate the months of time required to foreclose and ultimately the time to market and sell the property. This will minimize the amount of time properties remain vacant, open to vandalism, with dying yards, and ultimately neighborhood blight.

5. Set a maximum amount of time between the time the lender receives the property back as a result of Deed in Lieu of foreclosure or the foreclosure itself and the time the property is place on the market for sale. This again will minimize the amount of time the property remains vacant, open to vandalism, dying yards and ultimately neighborhood blight.

Again I thank you for your time, and thank you for this opportunity to participate today.

STATEMENT OF JOSEPH C. BATES
Director, Santa Ana Homeownership Center
U.S. Department of Housing and Urban Development
Field Hearing before the Committee on Financial Services
United States House of Representatives
September 6, 2008

Good afternoon Chairman Frank and distinguished Members of the Committee. Thank you for the opportunity to testify today on the efforts made by the Department of Housing and Urban Development (HUD) in the areas of foreclosure prevention and intervention. The Administration and Congress have taken several measures to address the housing crisis, which I will outline in my testimony.

FHASecure

In response to the housing crisis, the Federal Housing Administration (FHA) expanded its programs to help more Americans facing foreclosure refinance into safer, more affordable mortgages. In August 2007, President Bush announced a new product called *FHASecure* for homeowners who fell behind on their mortgage payments after their initial interest rate reset. Since the inception of *FHASecure*, more than 330,000 families have refinanced with FHA and by the end of the year we anticipate helping approximately 500,000 families.

On July 14, 2008, HUD expanded *FHASecure* to provide additional assistance to borrowers with adjustable rate mortgages. *FHASecure* is now assisting families who have missed up to three monthly mortgage payments over the previous 12 months or have experienced temporary economic hardship, such as loss of overtime or medical needs. Like the HOPE for Homeowners program, which we are in the process of implementing, *FHASecure* encourages lenders to voluntarily write down outstanding subprime mortgage principal.

Homeowners can find out if they are eligible for assistance right now by obtaining information through any of the following options:

- Contact a local, HUD-approved housing counseling agency at HUD.gov;
- Contact the HOPE NOW Alliance at 1-888-995-HOPE; or
- Call FHA at 1-800-CALL-FHA.

Increased Loan Limits

In March of this year, as part of the bipartisan economic growth package, the President signed into law a temporary increase in FHA's loan limits through the end of this year, enabling even more families to purchase or refinance their homes with an affordable mortgage. These temporary loan limits, which go as high as $729,750, are especially advantageous for high-cost areas such as California where FHA's traditional loan limit of $362,790 prevented FHA from being utilized.

Thanks to the strong support of Chairman Frank and many members of the California congressional delegation, the recently enacted Housing and Economic Recovery Act makes permanent a new higher loan limit for high-cost areas of the country. Here in California, that means FHA will now be able to insure mortgages of up to $625,000.

HOPE for Homeowners Program

In addition to higher FHA loan limits, the Housing and Economic Recovery Act, which President Bush signed into law on July 30, further expands FHA's ability to provide targeted mortgage assistance to homeowners. The new HOPE for Homeowners program will continue FHA's existing and successful efforts to provide aid to struggling families trapped in mortgages they cannot afford. Under the program, certain borrowers facing difficulty with their mortgage will be eligible to refinance into FHA-insured mortgages provided their lenders agree to write down a significant portion of their outstanding principal.

The HOPE for Homeowners program gives FHA an additional $300 billion in mortgage insurance authority. Under the program, principal balance and interest rates for eligible borrowers are reduced through refinancing into new, affordable FHA-insured loans based on current property values.

HOPE for Homeowners maintains FHA's long-standing requirement that new loans be based on a family's long-term ability to repay the mortgage. FHA only allows owner-occupants to be eligible for FHA-insured mortgages and borrowers must also meet the following eligibility criteria:

- Their mortgage must have originated on or before January 1, 2008;
- Their mortgage debt-to-income must be at least 31 percent;
- They cannot afford their current loan;
- They did not intentionally miss mortgage payments; and
- They do not own second homes.

While the program is still in its planning stage and key details continue to be ironed out, I'm pleased to report, Mr. Chairman, that the Board of Directors and staff to the four member agencies have been working around the clock on getting this program up and running, and we are on track to have it implemented by October 1. I believe the Department will be in a position to discuss many of the key components to the program at the oversight hearing you have scheduled for September 17.

Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes

The Housing and Economic Recovery Act also authorized $3.92 billion in block grant funds to be spent on the redevelopment of abandoned and foreclosed homes and residential properties. The funds will be allocated to states and local governments using the following need-based criteria:

1) The percentage of foreclosed homes;

2) The percentage of homes financed by a subprime mortgage; and
3) The percentage of loans in default or delinquent.

All funds appropriated must help individuals and families whose income does not exceed 120 percent of area median income, with 25 percent of funds appropriated to benefit individuals or families whose incomes do not exceed 50 percent of the area median income.

HUD will announce each state's allocation, including specific community allocations, in late September. While it is premature to speculate how much the State of California and the communities in the Central Valley will receive, I think it is fair to assume that, given the high rate of foreclosure and subprime mortgages, California stands to get a significant share of these funds.

Housing Counseling

Housing counseling is an essential part of any solution to the housing problem. Effective counseling can help existing homeowners stay in their homes, and help new homeowners stay out of trouble in the first place.

President Bush requested $65 million for housing counseling in his Fiscal Year (FY) 2009 budget request. The Administration has increased funding for HUD's 2,300 approved housing counseling agencies by 150 percent since 2001, and $50 million was approved for counselors in FY 2008. Another $180 million went to the non-profit NeighborWorks this year to help prevent foreclosures.

The recently signed housing bill authorizes an additional $100 million for NeighborWorks for foreclosure mitigation activities. The law also requires eligible recipients of the funds to identify and coordinate with non-profit organizations operating national or statewide toll-free foreclosure prevention hotlines.

California's Central Valley

The HUD Sacramento and Fresno Field Offices are working with communities throughout California's Central Valley to address the rise in home foreclosures. We have built our response to the foreclosure emergency on two key principles: education and fostering collaboration between stakeholders.

In October 2003, the HUD Sacramento, Fresno and San Francisco Field Offices, with support from CPD/San Francisco and Single-Family/Santa Ana, helped establish the Northern California Housing Counseling Network. The network's mission is to promote professional development, education, collaboration, and advocacy among homeownership and housing counseling agencies to enhance their ability to empower individuals to become successful homeowners and renters.

Since the establishment of the Network, the Central Valley has experienced an increase in HUD-approved housing counseling agencies that have expanded counseling services in mostly rural areas and have competed successfully for HUD resources to fund the counseling services. In addition, 13 housing counseling agencies within the Central Valley successfully competed for

counseling funds made available by the congressional National Foreclosure Mitigation Counseling Fund.

Building on our positive experience working with the Network, the HUD Sacramento and Fresno offices joined local county-wide efforts to educate communities about how to prevent foreclosure of their homes; avoid fraudulent offers to help save their homes and, when foreclosure is unavoidable, to ease homeowners into alternate housing.

There are three local efforts with which the HUD field offices have been working are: the No Homeownership Left Behind initiative in the Fresno area; the Partners Promoting Homeownership in San Joaquin County; and the Sacramento Regional Partners in Homeownership. Each partnership focuses on developing communication tools to educate homeowners as well as renters about the various options of how to forestall or effectively address foreclosure activity. These communication tools range from posting information on their websites; distributing periodic newsletters; mailings to households receiving default notices to hosting community-based foreclosure workshops with counselors, elected representatives, lenders and servicers.

In addition, each of the HUD Field Offices actively encourage partners such as the housing counseling agencies, local government representatives and real estate professionals to participate in training opportunities, conferences and forums offered by the Federal Reserve, the State of California and HUD either through NeighborWorks or the Santa Ana Homeownership Center.

Thank you. I appreciate the opportunity to appear today and discuss these important issues.

NeighborWorks®
HomeOwnership Center
SACRAMENTO REGION

Financial Services Committee – Hearing in Stockton, California
"The Effects of the Foreclosure Crisis on Neighborhoods in California's Central Valley: Challenges and Solutions"
September 6th, 2008
Presentation from: **Pam Canada, CEO**
NeighborWorks® HomeOwnership Center Sacramento Region

I would like to begin by thanking Chairman Frank, Chairwoman Waters, and the entire Financial Services Committee for their leadership in getting HR.3221 passed. I would especially like to thank the Committee for including the allocation of $3.9 billion in CDBG funds, known as the Neighborhood Stabilization Fund, to be allocated to communities for the redevelopment of abandoned and foreclosed properties, investing in neighborhoods with measurable and lasting impact. And for the additional funding for housing counseling through Neighborhood Reinvestment Corporation that will provide help to thousands more families that are struggling to preserve their homeownership.

Welcome to Stockton for this important Hearing to address the impact of the foreclosure crisis on neighborhoods in the Central Valley of California.

NeighborWorks® HomeOwnership Center Sacramento Region is a premier member of the NeighborWorks network of not-for-profit organizations that are chartered by Neighborhood Reinvestment Corporation, dba NeighborWorks® America, and carry out a mission of work to provide stable, sustainable home ownership thru a comprehensive process that includes an emphasis on pre-purchase homebuyer education, flexible, responsible lending and post-purchase counseling for homeowners.

HR. 3221 included funding to support foreclosure prevention counseling and this meets a critical need for struggling homeowners in Stockton, the Sacramento Region, the State of California and across our nation. The most recent numbers show us that 1300 homes go into foreclosure every business day in California. Thank you for including counseling funding that will allow thousands more families to be served by qualified housing counseling agencies and undoubtedly preserve homeownership for hundreds of people in the Central Valley. NeighborWorks Sacramento is certified directly by HUD to provide housing counseling and homebuyer education and has signed our commitment to uphold the National Industry Code of Ethics and Conduct for Homeownership Professionals. We have provided foreclosure prevention information to thousands of people and individual help to hundreds of homeowners that are looking for a path to a reasonable solution that lets them keep their home. HR.3221 provides much needed funding for the capacity that this work requires and will preserve homeownership for thousands more people that are reaching out for help.

Stockton and the Central Valley have been particularly hard hit, consistently listed in the top of national rankings for number of foreclosures. There was a preponderance of sub-prime lending activity in Stockton and minimal pre-purchase education was offered or available in the Central Valley to mitigate this predatory practice. Homebuyers up and down the Central Valley and throughout the Region were told that they "better buy now or you will miss out", so they grabbed the apparent opportunity to get that piece of the American Dream and bought a home that was not affordable for them on the first day they

closed that loan and moved in. To get the home they wanted, buyers used available sub-prime loan products, with low teaser rates and exorbitant adjustments over a short time frame, Option ARMs were affordable for the first 6 months if they only paid the minimum amount due. Rising home prices in the Central Valley created a sense of urgency for new homebuyers and they were easy targets for predatory lenders using loan products that were appealing because the family could buy a beautiful 4-bedroom home in a nice neighborhood and live out their dream of ownership and stability for their family.

If more of these new homebuyers had received quality, multi-lingual, non-biased homebuyer education such as that provided by NeighborWorks certified housing counselors, they would have been equipped to make informed choices about their lender, their financing options, and their affordability. The effect of quality housing counseling has been documented in several studies. A study by Freddie Mac found that borrowers who had received individual pre-purchase counseling were 34% less likely to become delinquent than those who had none. This was later substantiated by City University of New York that surveyed first-time homebuyers to find that 11% said they were in default, while only 6.8% of similar NeighborWorks-counseled homebuyers nationally had defaulted. The same study also determined that counseled borrowers received significantly lower interest rates than those who did not have pre-purchase counseling. Through our pre-purchase education, prospective homebuyers learn the process and potential risk factors of home buying. Quality, responsible education provides the homebuyer with the ability to make informed choices. Informed prospective homebuyers will know if they are ready to buy, what they can afford to buy and how to shop for a responsible lender and a suitable loan product. <u>Pre-purchase education is the ultimate foreclosure avoidance action for homebuyers</u> and we encourage the Committee to lend its support to this work. The challenge remains in Stockton and the Central Valley, and indeed across the nation, to create informed consumers and foreclosure resistant borrowers. This is accomplished through quality pre-purchase homeownership education. Funding for this counseling is minimal yet its impact is extraordinary and should be central to all housing programs.

One of the first large Foreclosure Prevention workshops offered in the Central Valley was held here in the City of Stockton and sponsored by Congressman McNerny and Congressman Cardoza, along with State Senators Machado and Agazharian. NeighborWorks was pleased to provide several certified counselors to address the questions of some of the approximately 500 people that attended that one workshop and we have continued to participate in many more workshops of this type throughout our 6-county region. In early 2007, in response to the overwhelming demand on our available capacity, we gathered a group of critical stakeholders and created the *Sacramento Region Coalition for HomeOwnership Preservation*, and subsequently created a *NeighborWorks Foreclosure Prevention Workshop* that we continue to hold every week, delivered in English, Spanish and Russian, at our HomeOwnership Center. To address the diversity in our region and reach homeowners that may be blocked from getting quality information due to language barriers, we have partnered with another non-profit to provide client referrals along with translation services which now allow us to provide our education and counseling services in 10 different languages. (Bosnian, Serbian, Croatian, German, Hmong, Spanish, Russian, Serbian, English, and American Sign Language.)

We are also a member of the *Northern California Housing Counseling Network* and the *Sacramento Regional Partners for HomeOwnership*, connecting and collaboratively working together with others to address the issues and share ideas and best practices.

Recently we were an invited participant at a small gathering of servicers and counselors, hosted by Commissioner DuFuchard at the California Dept. of Corporations. This was an open and productive sharing of challenges and solutions between the represented companies, with everyone agreeing that regular meetings with open dialogue need to continue. The Commissioner has offered to host quarterly meetings with solution-oriented agendas.

NeighborWorks Sacramento and Los Angeles NHS were recently invited to meet with HomEq Services and we spent 4 hours together at their shop, discussing criteria for loan modification considerations, challenges of counselors, borrowers, servicers and

investor issues. These examples of collaborative efforts, with practical and realistic sharing of challenges and solutions among invested participants will help to move us all forward towards diminishing the foreclosure numbers in the Central Valley, and the State of California.

Additional efforts from federal, state and local governments are needed if we are to improve the foreclosure situation. A recent survey of foreclosure prevention service providers by the California Reinvestment Coalition presented 5 clear pieces that are recommended for legislative action: 1) prohibit lenders and brokers from steering borrowers into loans that are more costly than they are qualified for, 2) require the translation of key loan documents for non-English borrowers, 3) ban prepayment penalties, 4) ban yield spread premiums, and 5) create more accountability for mortgage brokers.

With respect to HR. 3221, it is imperative that lenders participate in the <u>Hope for Homeowners (FHA refinance) program</u>. From the very day this was announced we began receiving many calls and inquiries from homeowners that are hoping they can be included in this program and keep their home – there are several eligibility criteria for the borrowers but it still comes down to the servicer and investor agreeing to accept a principal shortfall. If we can't get them to agree now to a reasonable loan modification that preserves their principal, it seems unlikely that there will be easy agreement when they are asked to accept a reduced payoff. We urge the Committee to keep the dialogue going with lenders and investors so they can see the advantage of participating in this important program.

The Neighborhood Stabilization Fund is an important component of the bill and represents a significant opportunity for the Central Valley and many other communities to take action in areas that are now blighted by foreclosed and abandoned homes. We ask that the Financial Services Committee members ensure that the best and most current data is used when developing the formulas for the CDBG funds, such as the data from First American Core Logic which is being used by the Federal Reserve. The freshest data will provide the best opportunity for the Central Valley and for California. We encourage HUD to use the number of units impacted by foreclosure, not simply the number of properties as the measure of foreclosure in the formula, since multi-family properties contribute a large portion of the total number of properties.

When thinking of solutions one thing is clear – homeowners, working with certified housing counselors, need more time to resolve these issues with their lenders. One such proposal in Congress is HR 6076, the Home Retention and Economic Stabilization Act of 2008, sponsored by our local Congresswoman Doris Matsui. It calls for a "time out" on foreclosure proceedings for those homeowners that are current in their payments, giving eligible borrowers a conditional deferment period and a window of opportunity to preserve their homeownership. HR 6076 has our support and is co-sponsored by 40 members of Congress, including Congressman Cardoza.

We request that you encourage lenders/servicers to participate in bulk REO discounts and consider writing down properties in bulk for sale to capable and experienced organizations, like NeighborWorks Sacramento and Visionary Home Builders in Stockton, that would refurbish and resell to low and moderate income families for homeownership. This would reduce the inventory held by the lender, build homeownership opportunity, and address the growing number of vacant properties that are lining our neighborhoods.

The negative impacts of foreclosure on communities are far reaching. Not only are people losing homes, communities are suffering economically, physically, and socially;

Communities suffer from increased crime – having multiple abandoned homes is proven to have a direct effect on the rise in crime in communities. Thieves are breaking into houses and stripping them of systems, wiring, and anything with value. Destruction of property and vandalism is making the homes more difficult to sell and it can actually take more money to renovate the homes than the potential sales price would cover in this market. Vacant properties are also a magnet for other forms of illicit activities, requiring added resources from the police and code enforcement services.

Cities and Counties are negatively impacted - not only from the added services required but also from the lower property values caused by foreclosed homes that have led to a smaller tax base. When this happens, local government must respond to the fiscal shortfall and, unfortunately, social programs and public services are often the first to be cut. The programs cut or eliminated are the very services that can help residents who are suffering from the foreclosure experience.

Area youth are displaced - a hard hit victim of foreclosure is the children. Foreclosure produces a negative environment for raising youth. Parents' stress seeps down to their children and manifests in many difficult ways. Moving the family can create instability for a child, they lose friends, teachers, sports teams, etc.. This can be extremely stressful to a child, leading to falling grades and low self-esteem that can be difficult to restore for a healthy optimistic future.

Communities are blighted by neglect – properties and whole neighborhoods begin to deteriorate. Deferred maintenance, unmowed lawns, pests move in, and a general lack of care can change the entire atmosphere in the community. Local and State governments have invested into neighborhoods over many years throughout the Central Valley, to revitalize them block by block. These neighborhoods are struggling to hold on as the housing crisis threatens to unwind their strides forward to a healthy thriving community. Health and safety issues are created as abandoned homes with swimming pools become breeding grounds for mosquitoes and increase the chance of West Nile Virus.

Finally, we ask that you resurrect the anti-predatory lending legislation. Yes, area lenders have tightened their underwriting criteria for now and sub-prime lending activity has been reduced but these are cyclical and if there is an opening, when the market returns there will be nothing in place to stop or monitor this destructive practice.

The Central Valley will benefit from the Neighborhood Stabilization Fund the housing counseling funds and would also benefit from the opportunity for REO bulk sales at discounted prices. NeighborWorks Sacramento has been serving homeowners from Stockton, Lodi, Modesto and Merced from our HomeOwnership Center about 40 minutes North in the City of Sacramento and by holding group and individual counseling appointments at various locations in Stockton. We have hired and trained additional counselors thanks in part to funding raised by California Reinvestment Coalition and from the National Foreclosure Mitigation Counseling funds. We have partnered with Washington Mutual, Citibank, Bank of America and have recently entered into an agreement with Countrywide, to provide our counseling services in Stockton. We have been working to build funding and resources from area government and NeighborWorks America to allow us to move ahead with our plans to open a NeighborWorks branch here in Stockton but have not fully secured the support needed at this time. We are hopeful that we can staff a branch here by the end of 2008 and increase the available foreclosure prevention counseling and homebuyer education in the Central Valley.

Thank you for the opportunity to address this field hearing of the Financial Services Committee.

Pam Canada, CEO
NeighborWorks® HomeOwnership Center
Sacramento Region
Ph (916) 452-5356 ext 211
pam@nwsac.org

Pam Canada, CEO
NeighborWorks® HomeOwnership Center Sacramento Region

Biographical Notes

Pam Canada is the Chief Executive Officer of NeighborWorks® HomeOwnership Center Sacramento Region, a non-profit, 501(c)(3) organization, a full-cycle lender and neighborhood revitalization corporation. Pam has worked in the housing and community development field for her entire career and has focused her efforts on providing affordable homeownership, financial education, and residential real estate business in her corporate positions as well as her work in the not-for-profit sector.

Prior to this position, Pam enjoyed over 20 successful years in the residential mortgage banking business, as Senior Vice President of a national bank and mortgage company, she directed the mortgage lending division in California, successfully achieving an annual retail loan volume of over $400 million in her Division.

Joining NeighborWorks® Sacramento Region as a corporate sponsor and volunteer in 1991, she later volunteered her time as a member of the Loan Committee and was recruited onto their Board of Directors.

Pam has been the CEO of NeighborWorks® Sacramento Region since 1996. Pam's leadership has resulted in the organization moving from financial difficulty and 3 staff members, to a sustainable operating budget close to $2 million and a highly qualified staff that is capable of achieving consistent results. NeighborWorks® Sacramento Region has grown in available resources and community influence, been certified by the U.S. Dept of the Treasury as a Community Development Financial Institution, approved by HUD as a housing counseling agency, licensed by the State Dept. of Real Estate and Dept. of Corporations, and has dramatically increased its neighborhood impact in the Sacramento Region.

Under Pam's leadership the organization opened its HomeOwnership Center in 1998 and has provided homebuyer education and affordable financing to thousands of families, invested millions of dollars into the Sacramento economy, improved and beautified hundreds of homes and dozens of blocks in our neighborhoods.

Pam gives her time and expertise to the community through her participation with local housing coalitions, national housing network, testimony to the State Senate Banking, Finance and Insurance Committee, serving on the Board of the National NeighborWorks® Association and the NeighborWorks® Advisory Council and has served on the Sacramento Children's Coalition and the Human Services Coordinating Council for the County of Sacramento, all for the purpose of revitalizing Sacramento neighborhoods and empowering its residents.

Prepared Testimony of
George Duarte, CMC

Vice-Chairman, Northern Region
Government Affairs Committee
California Association of Mortgage Brokers

Field Hearing on:

The Effects of the Foreclosure Crisis on Neighborhoods in California's Central Valley: Challenges and Solutions

Before the

House Financial Services Committee
United States House of Representatives

Stockton, California
September 6, 2008

Thank you for holding a hearing to focus on ways to stop the rising foreclosure rates in the California's Central Valley and the impact of these foreclosures on our communities. My name is George Duarte, and I am a mortgage broker in the City of Fremont, doing business in East Bay-Alameda, Contra Costa, San Joaquin, Santa Clara and other counties since February 1986. I have earned a Certified Mortgage Consultant (CMC) designation from the National Association of Mortgage Brokers (NAMB), which is the most advanced credential for mortgage professionals offered by NAMB. I currently serve as the Vice-Chairman of the Government Affairs Committee of the California Association of Mortgage Brokers (CAMB) for the northern region of California.

I appreciate the opportunity to testify on behalf of the California Association of Mortgage Brokers (CAMB) and would like to extend my gratitude to Congressman Cardoza and Congressman McNerney for the invitation to join the panel today to share CAMB's observations and experiences about the challenges consumers face as they seek to avoid the tragedy of foreclosure and the impact of rising foreclosures on the Central Valley. I commend the Committee for traveling to what some have called "ground zero" for the mortgage crisis that is facing our nation to hear directly from those of us who are seeing the problems first-hand. We are in the community, assisting those who are faced with the tragedy of losing their homes and also witnessing the aftermath of the crisis and its dramatic impact on neighborhoods.

The California Association of Mortgage Brokers (CAMB) is a non-profit professional trade association comprised of licensed real estate brokers, salespersons, and affiliated lenders whose primary business is assisting consumers in obtaining residential and commercial real estate financing, and brokering conventional and government mortgage loans. Since its inception in 1990, CAMB has promoted the highest standards of professional and ethical conduct, among which are expert knowledge, accountability, fair dealing, and service to the consumer and our community. The Association provides education, legislative and regulatory representation, and public relations for its members, while serving as a forum for the development of common business interests across the industry. CAMB has led the mortgage industry by being first in California and the country to define and combat predatory lending, as well as creating a mortgage origination handbook that has set the standard for best practices in the industry. At both the state and federal levels, CAMB has advocated for and is dedicated to curbing predatory lending practices, while ensuring the best products are available to help more and more Americans achieve and sustain the dream of homeownership.

Foreclosures in California's Central Valley

The number of homes across the country in danger of foreclosure has more than doubled since last year and despite some reports to the contrary, the situation is getting worse, not better. At the end of July, RealtyTrac released the *U.S. Foreclosure Market Report*, indicating that foreclosure filings were up 14 percent more for the second quarter of 2008. For the past eight quarters, foreclosures have been on a steep rise, with

foreclosure filings in California up 198 percent from just last year. One in every 65 California households received a foreclosure filing during the second quarter of 2008.

Unfortunately, the Central Valley of California has been heavily impacted by the foreclosure crisis. With San Joaquin County on track to have more than 16,000 homes foreclosed on this year alone, the Central Valley continues to be at the center of this crisis. Stockton has experienced a 50 percent decrease in median home values in just the last 12 months, and our neighboring cities and counties are experiencing similar declines. This dramatic decline in home values impacts the equity of homeowners who are not in trouble and has caused some to "walk away" from their properties even when they can make the mortgage payment because they owe more than the home is worth, further exacerbating the problems of vacant properties in our communities. Projections are that things will get far worse as negative-amortizing loans are scheduled to reset in the next twelve months. It is imperative to stop the downward spiral of people losing their homes, which is also causing the equity of other area homeowners to vanish. We commend the Committee for its continued focus on finding ways to achieve stability in the housing markets to end the foreclosure crisis and stop these dramatic declines in home values.

CAMB's Preserving Homeownership Initiative – Helping Homeowners to Avoid Foreclosure

CAMB members have been reaching out to community leaders in an effort to provide assistance to homeowners who are facing foreclosure through CAMB's Foundation, which is a 501(c)(3) non-profit organization. Through its Preserving Home Ownership Initiative Program (PHOI), the CAMB Foundation provides free, community based forums that allow existing homeowners a one-on-one mortgage counseling session with a CAMB advisor. The PHOI program began initially as a program to help homeowners to understand their loan documents and to answer any questions regarding financing, credit and homeownership. Due to the current market situation, PHOI has evolved into a program that offers counseling to homeowners about the loan modification process.

PHOI events take place at community locations and often in partnership with other local organizations and elected officials. The California Department of Consumer Affairs and Business, Transportation and Housing Agency have partnered with the CAMB Foundation to offer the PHOI program in a town hall setting. In addition, the PHOI program has been facilitated by local television networks through a telethon format, allowing us to reach thousands of consumers. Since January 2008, we have convened more than 50 PHOI events across the state of California, as part of the Governor's Task Force. In addition, in the last ten months we have held ten telethons, seven in English and two in Spanish.

PHOI advisors are experienced volunteers that are members of CAMB. The counseling services provided at PHOI events are absolutely free of charge and CAMB volunteers are prohibited from engaging in self promotion or soliciting business from

event participants. We are dedicated to ensuring that PHOI remain an educational event for consumers, as opposed to a forum for advisors to generate business leads. With that in mind, rules of conduct for advisors at PHOI events are strictly enforced.

PHOI counselors provide advice to consumers about the loan modification process and how to have a successful interaction with a servicer. We provide phone numbers for lenders. We offer advice about what materials consumers should have in front of them before they call their servicer and we offer strategies for them to be successful in their call. For example, we advise consumers to immediately ask for the Loss Mitigation Department when they call their servicers. We also provide advice about how to complete the loan modification form. Further, we counsel consumers on what to expect in terms of how long they might be placed on hold, and acceptable time frames they might have to wait to receive an answer regarding the consideration of their loan modification request. The bottom line is that PHOI counselors try to provide homeowners with as much information as possible so that they can advocate for themselves when they contact their loan servicers.

The most recent PHOI telethon was held on August 8, 2008 in Sacramento, California. We partnered with Channel 3 KCRA, an NBC affiliate, from 5:00 a.m. to 7:00 p.m. to offer information and advice to individuals who called our hotline. The telephones were manned by ten to twelve PHOI counselors. There were also two PHOI counselors available to answer questions by e-mail. We arranged for Countrywide and Wells Fargo to establish a hot line for the day. During the course of the day, we received over 1,000 calls and 400 e-mails from consumers in need of assistance.

Problems with Servicers

I would like to take this opportunity to share with the Committee what we have learned through our PHOI events about the problems many in danger of foreclosure are facing in seeking assistance from servicers to find a solution that would allow them to remain in their homes. Families at risk of foreclosure can be helped tremendously when competent professionals are there to assist them in understanding their options and navigating the mortgage servicing labyrinth. Unfortunately, it is all too often that individuals feel they have nowhere to turn as a result of the responses they receive from loan servicers when they call the toll-free phone number that is printed on their monthly mortgage statements.

While PHOI has been very successful, it is apparent with the rising foreclosure rates that more must be done to reach all who are in need of assistance in avoiding foreclosure. From our PHOI events, we have learned that consumers are confused and they do not know where to go for help. The misinformation they have received is unbelievable. The first logical step for any consumer is to call the toll-free phone number on their mortgage statement to request assistance. However, for far too many homeowners, this call only leads to frustration and confusion.

I cannot overemphasize to you that the volume of individuals who are in need of assistance is overwhelming. While lenders are reporting high levels of loan modifications, their efforts are clearly not enough given the long lines of people coming

to us for help and given the confusion and frustration that consumers express to us. What has happened to so many of our fellow Americans to get them into this situation is abhorrent. The stories that we have heard are heart wrenching, and also as mortgage professionals we find them to be infuriating. Not only are we hearing about high incidences of mortgage fraud, but also the majority of the time PHOI event participants are learning about their options for the first time and have been misinformed or misdirected by their servicer.

We believe that in order to stem this tide of foreclosures, it will be absolutely critical for servicers to make significant improvements to their loan modification processes and to offer clear instructions and competent, trained, and compassionate individuals to work with their customers. Counseling entities do not have the ability to address the sheer volume of all of those who need help. Without improvements to the servicers' operations, we will continue to see the high volume of people in need of assistance in getting the information and results from the servicers that they need. Based on our experiences with the consumers we have met seeking assistance through the PHOI program, we would like to offer the following observations about problems with the servicers that need to be corrected:

Lack of Experience. We have found that the departments for servicing and loss mitigation are not prepared to handle the volume of inquiries or the types of issues that are being raised by homeowners. While we commend servicers for responding to the foreclosure crisis by hiring more loan modification staff, the problem is that many of these individuals are not fully trained or appropriately qualified to assist consumers with the loan modification process.

Inconsistency in Information. Time and again, we have been told by consumers that they have received different information, instructions, or advice each time that they call and speak to a different person at their servicer. Because consumers are not always working with the same person, the terms or requirements for loan modification frequently change. For example, one consumer we worked with was told that they could not be helped until they missed two payments. After missing two payments, they called back and were told that they could not have their loan modified because they were delinquent on their payments. Essentially, servicers are advising people to harm their credit and become late on their payments and then penalizing them for doing so after the fact.

Lack of Coordination in Servicing Departments. We have found a total lack of coordination among the loan servicing departments. Departments do not talk to one another or share information about a specific account. As a result, a consumer could be working very hard with the Loss Mitigation Department for a loan modification, but because the Default or Trustee department is not aware of this, the person's house can be sold at a trustee sale in the middle of the loan modification process. Further, if the consumer is directed to the Collections Department, the focus is on collecting late payments rather than working on the loan modification.

Time Delays. Most of the servicers take between 90 and 120 days to let a consumer know if they are approved for a loan modification. Some take even longer. With some of the lenders, the consumer might send in their loan modification materials but it takes so long to process it that the package will expire and the lender will tell the consumer that they have to start over.

Lack of Consideration of Individual Hardship Circumstances. Most servicers require a hardship letter to be included in the loan modification package. Unfortunately, it appears to us that these hardship letters are largely ignored. Instead, decisions are made by formulas as opposed to the individual's circumstances that have caused the difficulty in making payments. Most people we see at our events have two or three years of excellent payment history. The problem for many arose when their minimum mortgage payment reset. If servicers would consider leaving payment where it was prior to the reset, this would help many avoid foreclosure.

<u>*Modifying Some ARM Loan Terms Across-the-Board as Opposed to Individually*</u>

In addition to the problems with the loan modification process in the aforementioned section, a significant drawback of the loans that have caused so much damage is the feature that results in very high margins that begin after the initial fixed period of two or three years. Margins of five, six, or even seven percent are quite common on these loans, causing the fully indexed rates to reset by double digits after the initial fixed period. As we have seen these dramatic loan resets make it virtually impossible for many consumers to sustain timely mortgage payments.

While lenders' efforts to respond to loan modification requests one-at-a-time is understandable, the sheer volume of requests have caused that system to fail and as a result far too many individuals are losing their homes to foreclosure. One way to stop the wave of foreclosures we are experiencing would be to place a temporary moratorium on the adjustment of adjustable rate mortgage (ARM) loans, keeping them at their start rates for a period of three to five years, or if already adjusted, roll back interest rates to their initial start rates. These solutions would maintain the initial affordability offered to consumers and stop what is occurring in our neighborhoods. Another option would be to place a temporary limit on the margins of ARM loans to no more than 1.5 percent, which would have the impact of actually lowering the current rate from the initial start rate on many ARM loans, and result in maintaining the initial affordability of the loans for the consumer.

Many of these options are currently being utilized by lenders. The problem is that the loan modification process is bogged down by the ever-increasing numbers of individuals that are in danger of foreclosure. For example, one lender has told us that they currently have 42,000 pending modification requests and they cannot hire qualified individuals fast enough to deal with this backlog, let alone the flood of new modification applications that are coming in every day. Rather than moving forward, the estimate is that they are further behind by a rate of 500 files per day.

CAMB has long cautioned against government involvement in the mortgage process that would negatively impact the availability of mortgage credit and I stand by that today. However, given the magnitude of what we face during this housing crisis with so many homes approaching foreclosure, we must consider the consequences of allowing things to continue without intervention.

Saving the Neighborhoods Impacted by High Foreclosure Rates

In addition to helping families avoid foreclosure, we must also rescue our communities from the negative impact of foreclosed properties. Vacant homes in neighborhoods often have overgrown yards and are subject to decay and vandalism. These foreclosed properties provide a visual reminder for those living nearby that their neighborhood is declining and their home prices are falling.

Ownership can help turn these neighborhoods around once again by filling these homes with families who care about the future of the community. We need to encourage first time homebuyers to purchase foreclosed properties over investors, who do not plan to occupy the home. Unfortunately, the system favors investors with cash over first time homebuyers in need of a mortgage. We must try to level the playing field between investors who plan to rent out the home and first time homebuyers who plan to occupy the home. This will help revitalize the communities harmed by the foreclosure crisis. There are willing buyers of REOs and short sales that are not able to purchase because of inefficient rules and procedures that often favor investors. We need to change these rules to make it easier for first time homeowners to purchase foreclosed properties and help owner occupied homebuyers effectively compete with investor purchases.

Further, the way that property values are determined must be changed to help avoid neighborhood equity loss due to REOs and short sales. Residential property values are most frequently valued by comparing sales data of similar sold and closed in the area. These valuations are affected by the dramatically reduced prices during short sales and REOs. Even at the current high rate, "distressed properties" represent only a small percentage of the total real estate market. As such, they should not be allowed to impact the entire marketplace of home values. They should be segregated into their own market and value pool. If REOs and short sales are treated as a different classification of property valuation, where the "distressed price" is noted in the appraisal, then a distinction could be made between "distressed properties" and regular sales and listings, resulting in a stabilization of home values.

Conclusion

Thank you for the opportunity to offer our observations to the Committee today as you explore ways to help homeowners avoid the tragedy of foreclosure and to help neighborhoods recover from the high rates of foreclosures. We look forward to working with the committee to address this problem as quickly as possible so that we can stem the tide of rising foreclosures in the Central Valley, the state of California, and across our country. We hope that the committee will also work to ensure that regulators and law

enforcement officials can effectively combat mortgage fraud, and commend you for your work thus far to eradicate predatory lenders from our communities. It is our hope that these problems can be addressed quickly so that the American dream is sustained and so our nation can get on the path of economic recovery.

Testimony of Steven Gutierrez
Boardmember, San Joaquin County Board of Supervisors, California
Committee on Financial Services
Stockton, California
September 6, 2008

Mr. Chairman, Committee Members:

I would like to begin by thanking you for this opportunity to discuss the impacts of the recent foreclosure crisis on the residents of San Joaquin County. My name is Steve Gutierrez and I have served as a member of the San Joaquin County Board of Supervisors for twelve (12) years. Never in this time have I witnessed a crisis of the magnitude of the current mortgage foreclosure crisis.

Foreclosure Impacts

Foreclosures impact families...the loss of a home and the subsequent uprooting of families is devastating
Foreclosures impact neighborhoods...a foreclosed home impacts neighborhood property values and invites crime, drugs and gang activity.
Foreclosures impact communities...the resulting reduction of the property tax base and increased need for services such as law enforcement, counseling and homeless assistance.

How did this happen?

Earlier this decade, as the ballooning housing market pushed the affordability index past the point where the average first-time homebuyer could afford a typical home in many areas, the real estate industry kept the boom going by offering "teaser rate" mortgages. These loans had artificially low annual percentage rates that were only good for the first few years of the loan, after which they would reset (upward change in loan interest rate) to a much higher interest rate that the buyers in many cases would not be able to afford. As long as housing prices kept going up buyers would be able to use the increased equity in their homes to refinance into more affordable loans. Then, housing prices stopped going up.

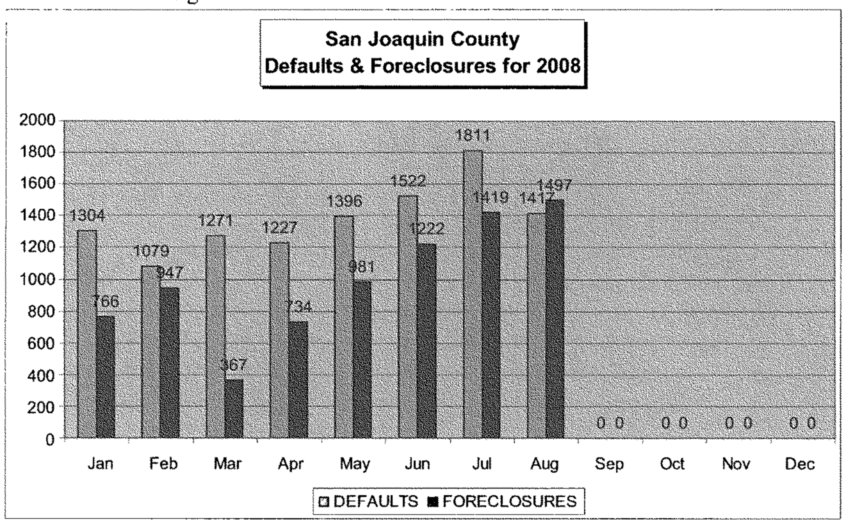
The foreclosure crisis began a couple of years ago with a huge wave of resets in the sub prime market. It has been the failure of these loans, coupled with decreasing home values, which has been responsible for much of the recent turmoil in the housing market.

Many industry experts, in reviewing Federal Reserve loan data, feel the sub prime crisis is the "tip of the iceberg" and on the horizon, particularly here in California, is a huge wave of option adjustable rate mortgages, or the so called "pick your payment" mortgages-which are prime loans. This loan products attractive payments are about to end when the mortgages will reset.
And even though these mortgage resets are on the horizon, research has shown that house value declines are more important than "resets" in predicting foreclosure...current

patterns of delinquency and foreclosures are being seen even before resets are occurring...many homeowners are just walking away from their homes

Here in San Joaquin County

Since January 2007 there have been more than 12,000 foreclosures in San Joaquin County...2,850 foreclosures in my district. This is a significant increase in foreclosures when compared to historical levels.
As you can see by this chart, foreclosure activity in San Joaquin County is on the increase and no relief is in sight.



What's being done about this Crisis?

In these times of declining revenues and increased demand for services counties and cities are taking steps to mitigate the damages from foreclosures, but we can't do it alone. For example, in 2007 County property tax revenue decreased by approximately 2%, or $4 million. It is estimated that County property tax revenue in the next year will decrease another 6% approximately, or $13 million. In this light, the federal government has an important role in assisting counties and cities in saving our neighborhoods.

The Housing and Economic Recovery Act of 2008, a $300 billion federal government initiative, was signed into legislation to assist 400,000 homeowners facing foreclosure and extends the life of Fannie Mae and Freddie Mac (secondary market loan purchasers). Initiative programs will begin October 1, 2008 and "sunset" September 30, 2011. Key provisions of the legislation are:

- Provides $4 billion in block grants directly to communities hit hardest by foreclosures.

- Provides $180 million for pre-foreclosure counseling.
- Develops an FHA refinance program for homeowners with problematic sub prime loans.
- Reforms FHA, government insurer of loans, to make homeownership more accessible in high cost areas, requires 3.5% down payments and requires new homebuyer counseling.
- Establishes a $7,500 First-time Homebuyers Tax Credit.
- Provides for foreclosure protection for active duty soldiers and veterans.
- Requires new mortgage disclosures.
- Provides increased Low Income Housing Tax Credits to states.
- Establishes a new, independent regulator for Fannie Mae and Freddie Mac.

However, it remains to be seen what affect the Housing and Economic Recovery Act of 2008 will have on the mortgage foreclosure crisis...it's a step in the right direction. Some feel that the legislation may be "too little, too late" because potentially 2.5 million homeowners could be facing foreclosure in 2008...and, what about the hundreds of thousands of households who have already lost their homes to foreclosure? Also, some feel the legislation is inadequate and has several shortcomings:

- The delay from enactment and planned implementation is too long...many will have lost their homes to foreclosure in the interim...there should have been a moratorium on foreclosures.
- The legislation should have included a provision that allowed bankruptcy courts to modify mortgage loan terms on primary residences which would prevent hundreds of thousands of foreclosures.
- $4 Billion of block grants to communities hit hardest by the foreclosure crisis is a "drop in the bucket" when compared to the need. Off the top, one quarter of the grant value is required to be allocated proportionately (1/50 th) to each state...is the problem proportionate?
- Lenders participation is voluntary...they have to agree to reduce loan amounts to 90% of the current home value. What happens if they don't agree?...there seems to a good market for the sale of foreclosed properties.
- There is no acknowledgement of the difficulty borrowers have had finding the holder of their loan and no remedy for this in the legislation.
- Only those homeowners without secondary debt on their homes and whose revised house payment does not exceed 31% of the homeowners monthly income can participate in the refinance program.

Gentleman, the Housing and Economic Recovery Act of 2008 is a good first step in addressing this foreclosure crisis; please don't let it be the final step. Don't let this crisis continue to devastate our families, our neighborhoods and our communities.

Mr. Chairman, that concludes my formal testimony. I hope this testimony has been useful in expanding your understanding of the impacts of foreclosure on families and local government in the Central Valley. If you have any questions, I will do my best to answer them. Thank you.

TESTIMONY OF SENATOR MICHAEL J. MACHADO, CHAIR
CALIFORNIA STATE SENATE BANKING, FINANCE & INSURANCE COMMITTEE

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES
SATURDAY, SEPTEMBER 6, 2008
STOCKTON, CALIFORNIA

California's Central Valley is primarily an agricultural region, with predominately blue collar jobs. Median income is $51,374, compared to state wide median income of $55,734. The housing boom in the Valley was fueled by the exodus of blue collar and middle management workers from the San Francisco Bay Area. These workers were attracted by the ability to buy larger homes on larger lots than they could afford in the Bay Area, with what was then attractive financing. Low gas prices made the idea of commuting back and forth to the Bay Area each day seem reasonable.

California's Central Valley has been ground zero for foreclosures in both California and the nation. Foreclosure filings were reported on 72,285 California properties in July, the highest total nationwide, and a figure that converts to one in every 182 California properties. Foreclosure filings were highest in the Central Valley – one in every 73 households in Merced, and one in every 82 households in both Stockton and Modesto. The July foreclosure rates in Merced, Stockton, and Modesto were number 2, 3, and 4, among all cities nationally.

Stockton, and other cities in the Central Valley, have been hard hit by foreclosures, because of a combination of factors which came together simultaneously. Home prices increased significantly, in an area where incomes were stagnant. Lenders relaxed their underwriting standards dramatically, and often required no money down, with no income verification, even when making loans to people with less than stellar credit. Lenders and mortgage brokers encouraged borrowers to purchase homes with mortgages the borrowers could not afford in the long-term, based on the assumption that the borrowers could refinance out of those mortgages before the payments increased to unaffordable levels. Many borrowers obtained loans whose

interest rates were scheduled to reset to two or three times the initial introductory payment, a level that was clearly unsustainable for these borrowers in the long term. The secondary market expressed a voracious appetite for mortgage loans, particularly those considered subprime. Virtually all market participants, including borrowers, mortgage brokers, lenders, credit rating agencies, and investors, believed that home prices would continue to rise indefinitely.

When home prices leveled off, many borrowers were left with little or no equity in their homes, and mortgages whose payments they could not afford. A significant number of borrowers who found themselves unable to afford their mortgage payments were surprised to realize that the neighborhood lender who initially made their loan no longer held the mortgage; instead, the loan had been sold on the secondary market to an anonymous investor, and was being serviced by a company who owed a fiduciary duty to the investor, not the borrower. Servicers who collected the payments on these loans were bound by that fiduciary duty to maximize the value of the mortgage asset at all costs, which often meant foreclosure, in lieu of a loan modification or other forbearance plan. A significant number of lenders and mortgage servicers were simply ill-equipped to work with borrowers having trouble making their payments, because their business models were based on payments collection, and not loss mitigation.

The mortgage market has changed substantially from the market in which our parents and many of us purchased our first homes. Loans originated and serviced by the neighborhood bank or savings and loan are a thing of the past. Instead, mortgage loans are originated by lenders throughout the world, bought and sold by and between financial institutions and institutional investors, bundled and sold by investment banks to investors in the secondary market, then bundled and sold again, and again, to still other secondary market investors. Involvement of multiple investors, and lenders' ability to shed the liability associated with mortgage assets by selling them, has resulted the development of a vast array of mortgage products that neither lenders, nor borrowers, nor even regulators fully understood.

As State Senator from the 5th Senate District, I represent Stockton, Manteca, Tracy, and other hard-hit Central Valley cities. I have served as Chair of the California State Senate Banking, Finance & Insurance Committee since December 2006, and have been involved in mortgage issues during each of my 14 years in the California Legislature.

In January 2007, my committee was the first in the country to hold hearings on the federal Interagency Guidance on Nontraditional Mortgage Product Risks. We also held hearings in March and August 2007, and in January 2008, to review steps we could take to address dangerous subprime lending practices, and investigate whether foreclosure avoidance plans which had been initiated at the state and federal levels were working. During that same time period, I participated in five town hall forums in my District, including one with Treasury Secretary Henry Paulson, in which borrowers could seek assistance from housing counselors, mortgage brokers, and mortgage lenders.

Collaborative initiatives between California and the federal government are critical for ensuring that mortgage brokering and mortgage lending in California, going forward, are performed responsibly. Uneven application of rules regarding lending practices encourages regulatory

arbitrage, a practice in which lenders choose their regulator, in order to minimize the amount of regulatory oversight to which they are subject.

There is great risk in California enacting laws to regulate our state lending licensees, and in doing so creating an unlevel playing field between state and federal lenders. Doing so will harm consumers in multiple ways. Not only will the state drive consumers to federally-regulated lenders who are subject to fewer restrictions, but we will send a message to the secondary markets that their capital is unwanted. Capricious actions by well-meaning states, particularly by a state as large as California, can dry up liquidity for years. New York's recent experience provides an excellent example of how this can happen. Very recently, both Fannie Mae and Freddie Mac indicated they would not purchase or guarantee loans that meet the definition of a subprime loan, pursuant to a recently enacted New York law. Thus, lenders in New York who are subject to that law will have few, if any, sources of liquidity with which to make those loans.

The California Legislature does, however, have an important role to play in this crisis, and has passed several pieces of legislation. In 2007, I authored two measures to help reform lending practices in California. Both were enacted into law. SB 385 extended the federal nontraditional and subprime lending guidance to state-regulated lenders and brokers, and SB 223 prohibited anyone with an interest in a real estate transaction from improperly influencing, or attempting to improperly influence, a real estate appraiser, in connection with that transaction. A similar appraisal provision of Regulation Z, which was recently enacted by the Federal Reserve Board, is not effective until October 2009. The changes enacted by SB 223, were effective a full two years earlier, in October 2007.

In 2008, I co-authored SB 1137, which required lenders to contact borrowers before filing a notice of default, in order to improve communication between lenders and borrowers, and help save some borrower's homes. SB 1137 was signed into law in July 2008. I also authored SB 1240 and SB 1737, which enact comprehensive mortgage broker reform in California, and SB 1055, a federal tax conformity bill that provides needed tax relief to borrowers whose lenders have forgiven mortgage debt in connection with a foreclosure, short sale, or deed in lieu of foreclosure. Many of the changes enacted by SB 1240 piggyback on the portions of HR 3221 pertaining to a national mortgage licensing registry. SB 1055, SB 1240, and SB 1737 are awaiting the Governor's signature.

Since 2007, the California Senate Banking, Finance & Insurance Committee has supported legislation that treats state- and federally-regulated lenders equally, and that protects consumers, while allowing for the free flow of credit from the secondary market. The Committee has resisted measures that would apply only to state-regulated lenders, or that would seek to modify existing mortgage contracts. Modifying mortgage contracts legislatively would send signals of uncertainty into the investor market, causing interest rates to increase and limiting the availability of capital.

Unfortunately, we are not past the worst of the foreclosures. In spite of the commitment of ten state-regulated lenders to work proactively with borrowers to help these borrowers avoid foreclosure, and establishment of the HOPE NOW Alliance, a similar effort that also includes federally-regulated lenders, borrowers in trouble continue to get the runaround from their lenders

when they contact the lenders seeking forbearance. I am personally aware of several families in my District whose efforts to obtain workout arrangements from their lenders have been spurned. Hundreds of hard-working, dedicated housing counselors have also run into brick walls, when advocating on behalf of their clients. Everyone agrees that foreclosure is a last resort that should be avoided at all costs, but the lending industry simply has been unable – and, at times, unwilling -- to meet the demand for loan modifications and forbearance plans.

Foreclosures are also likely to continue increasing, because of the large number of negatively-amortizing, payment option adjustable rate loans made to Valley residents. Many of these loans were issued to borrowers who have been paying only the minimum amount each month, and whose mortgage contracts will soon require them to begin paying down their loans, according to a fully-amortizing rate schedule. Unable to refinance due to minimal equity and tight underwriting standards, and unable to afford fully-amortizing payments at which they were not underwritten, many of the borrowers with payment-option ARMs are likely to become the next wave of foreclosures. Rising unemployment rates, coupled with recessionary economic conditions that have lowered the incomes of many Californians, will exacerbate the problem.

The Central Valley is likely to lag the state in recovering from the foreclosure crisis. Some local industry professionals, who have experienced several real estate cycles, predict that real estate prices in the hardest hit areas of the Central Valley are likely to take at least two years before they hit bottom, and even longer before they begin to recover. Other areas of the Central Valley have already begun to see signs of recovery. However, most of the inventory that is beginning to move consists of real-estate owned properties, which are being sold at artificially low levels, in order to attract buyer interest. Until the mix of properties on the market returns to a more traditional ratio, in which most of the For Sale signs are sales by owner, rather than by bank, Central Valley housing prices will continue to be depressed.

Recovery within the Central Valley will also be hampered by the high cost of fuel. Many of the residents of the Central Valley are commuters, who must drive to jobs in the Bay Area. With fuel costs at historic highs, these homeowners are even harder pressed to make ends meet. For these Central Valley residents, saving enough money to make a down-payment, in an underwriting environment which now requires at least a 10% down payment, will be an impossibility. This, in turn, will restrict the number of potential buyers of homes for sale, and keep home prices depressed.

The effects of foreclosure are greatest on the individuals whose lose their homes, but extend far beyond these individuals to neighborhoods, cities, the state, and even the international economy. Homeowners who lose a home to foreclosure lose equity, and experience damaged credit, damaged psyches, damaged community reputations, and damaged images at work. Many will never again be able to own a home. Neighborhoods with foreclosures experience significant declines in property values, which often means that homeowners who are making their mortgage payments are losing equity. Many of these homeowners also end up upside down in their mortgages, owing more on their mortgages than their homes are worth, and unable to sell their homes as a result.

Individuals who rely on the real estate business (realtors, construction workers, and contractors, and others), and on businesses that rely on a healthy housing market (salespeople in home improvement stores, furniture stores, landscaping businesses, and others), lose their jobs when foreclosures hit a community. Businesses that rely on a healthy housing market, and many financial services businesses, go bankrupt. The collapse of IndyMac Bank, a very large lender in the Alt A market, is reflective of how foreclosures can bring down even large, previously well-capitalized businesses.

Business failures and widespread foreclosures also impact the domestic and international investment community. Stocks, particularly those in the financial sector, have plummeted, taking many individual's retirement savings with them. The credit crunch that is currently gripping the United States is a direct result of investors fearing the worst about mortgage-backed securities. When foreclosures increased dramatically, many investors who held mortgage-backed securities and collateralized debt obligations fled from a market to which they had eagerly gravitated mere months before. Liquidity for mortgages vanished almost overnight. The cost of credit rose. Even borrowers with good credit and 20% down now have trouble obtaining loans. International investors are seeking investments outside of the United States. The foreclosure crisis has spread to a point where no single person is unaffected.

Although the provisions of recently-enacted House Resolution 3221 may have a positive impact on Central Valley communities going forward, the actions of our local leaders and our state legislature are likely to have a greater near-term impact.

Since this crisis began, the federal government response has been too slow. In mid-2005, all five federal banking regulators (the Office of the Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and National Credit Union Administration) reviewed data from the largest residential mortgage lenders in the country, looking for trends and current practices. The agencies' review found indications of loosening in underwriting standards, some instances of borrowers not being qualified based on fully amortizing payments, an increase in piggyback loans, and an increase in the use of credit scores in lieu of income and asset verification. The layering of these activities on top of subprime and nontraditional mortgages added additional credit risk. The survey also found concentrations of subprime and nontraditional products in areas experiencing the most rapid home price appreciation.

Yet, despite these sobering findings, the five federal banking agencies waited until December 2005 to issue *proposed* guidance on nontraditional mortgage product lending risks. These agencies did not finalize the nontraditional guidance until September 2006, and initially failed to extend the guidance to the types of products most responsible for the first wave of foreclosures (subprime hybrid ARMs). Final guidance on subprime hybrid ARMs was not published until twenty-one months *after* the publication of proposed nontraditional guidance. Over this nearly two-year period, underwriting standards weakened to the point that anyone could get a loan, with or without income verification, and regardless of whether they could afford the loan over time. Mortgage loan disclosures became meaningless. Borrowers did not understand their loans, and believed they could refinance out of mortgages they clearly could not afford over the long-term,

because their mortgage brokers and lenders assured them the housing market would continue its upward spiral.

As the subprime implosion grew, the Federal Reserve Board publicly stated that the nontraditional and subprime guidance documents were sufficient, and that amendments to Regulation Z were unnecessary. I commend your Committee and the leadership of your Chair, Representative Frank, in this regard. It is doubtful the Federal Reserve Board would have acted to amend Regulation Z, absent pressure from your Committee and the Senate Finance Committee. Yet, even under pressure from your Committee, the Federal Reserve Board's action was far too late. The Board began looking into revising Regulation Z in mid 2007, but took over a year – until July 2008 – to issue final changes to those regulations. Those changes will not go into effect until October 2009, at the earliest.

To conclude, I would like to review the actions my Committee has taken to address the foreclosure crisis.

The Committee I chair was the first in the nation to begin looking at the issues of nontraditional and subprime lending. We held our first hearing in January of 2007, to review the nontraditional guidance, and followed up with hearings in March and August of 2007, to review the subprime guidance and develop a strategy for helping stem the rising tide of foreclosures statewide.

In large part due to our August informational hearing, our state regulators, particularly our state Department of Corporations (DOC), spearheaded an initiative among state-licensed lenders to work with borrowers having trouble affording their loans. Also at the urging of the Committee, our DOC commissioner began collecting comprehensive loan servicing data from our state licensees. DOC initiated its effort before HOPE NOW, and has been a leader in the area of proactive mortgage lender regulation in California.

In 2007, I authored two measures to help reform lending practices in California, and in 2008, I followed up with five more pieces of mortgage legislation, to reform mortgage brokering practices, provide mortgage forgiveness tax relief, and enact escrow reform. I urge this Committee to give the changes enacted by Congress and the California Legislature, and the changes made to Regulation Z, a chance to work.

Without greater forbearance by the lending industry for problem loans, I believe there is little the federal government or state can do for those unable to afford their loans. At the margin, some will be helped, but in general, the market will have to absorb the shock, reset, and then go forward. We risk creating a moral hazard with government intervention to step in and save those who would otherwise lose their homes. Rewarding risky behavior will only perpetuate the problem. The work of your Committee is not yet done, but should be focused in the short-term on ensuring that the legislation we have already enacted is implemented in a way that maximizes its effectiveness.

"The Effects of the Foreclosure Crisis on Neighborhoods in California's Central Valley: Challenges and Solutions"

Presented by

Carol J. Ornelas

Chief Executive Officer

Visionary Home Builders of California, Inc.

September 6, 2008

Visionary Home Builders of CALIFORNIA

Hello and good afternoon! Welcome to the fine City of Stockton. My name is Carol Ornelas and I am the CEO of Visionary Home Builders of California. We are a non-profit affordable housing developer and a HUD Approved Housing Counseling Agency here in Stockton . We also serve various communities throughout the Central Valley. We are here today to discuss with you the housing disaster that has hit our community. I can best describe this disaster by comparing it to Hurricane Katrina, which hit New Orleans. The only difference is that Katrina was an act of nature, while our housing crisis was man- made. In neighborhood after neighborhood throughout Stockton you will find foreclosure signs, for sales signs and vacant and neglected properties. Many of the homeowners who are not facing foreclosure can only wonder what their neighborhoods will look like in the future or if they should let go of their homes since the value of their homes has dropped substantially.

Cities throughout the state of California continue to show some of the highest foreclosure activity in the nation. Statistics show that in California 1 out of 204 homes are in foreclosure. Stockton, as described by "60 Minutes", is the epicenter or ground zero for the foreclosure disaster. We have been #1 in foreclosures for the last year. Statistics for our city and many cities in the Central Valley show that 1 out of 26 homes are in foreclosure today. Let me assure you that everyone knows someone in this predicament. Last December Congressmen McNerney and Cardoza held a foreclosure event. Though December is usually a month of celebration, outside this event center, homeowners formed a line that wrapped around the building. When I walked into that event and took a look at the sea of people, I remember looking at

my colleague from the City of Stockton and saying "There is a chill in this room, take a look at this fine example of predatory lending." 99% of the people that day were Latinos, African Americans, Asians and our senior citizens. By the end of the day I knew this problem was huge because all of the families I worked with that day did not qualify for the initial loan and now their payments were going up and their income remained the same and housing prices had dropped substantially.

Today, we still do not see the light at the end of this tunnel. We know that we are in the middle of another reset and in November we will be hit with another surge of resets. Let's now throw into this equation the "option arms" that will begin to reset between now and 2010. Keep in mind, these homeowners who are facing default will still need to go through the process and we will not see them on the auction block for six months. This problem is not going away soon.

How did we get here?

The median income for the City of Stockton for a family of 4 is $61,300. We are primarily an agricultural based community with few high paying jobs. We had a huge influx of Bay Area residents that could not afford to live where they worked. The Central Valley became a bedroom community for these folks. Housing was affordable and clearly they were able to get more home for less money in the Valley. Builders stopped building for our residents and built housing for Bay Area workers with Bay Area salaries. The demand was great and the building industry was flourishing. Today, we know that the Bay Area families did not qualify for these homes, just like the residents of Stockton. They were lured in by the high appreciation rates that had been occurring for the prior four years. They were also lured in by financially unsound loans which had low initial teaser rates which only

lasted for two or three years, or worse yet, option arm loans. They are now victims of the sub-prime lending that hit our community and the burst of the housing bubble. Homebuyers in our Latino community often had unique characteristics that made them easy targets. For example, Latino families are more likely to have cash income or multiple sources of income. A lot of lenders and brokers didn't want to take the time to qualify Latino families properly. Stated income loans were prevalent. In many cases, if these families would have sat down with a housing counselor, they would have gotten a prime product, rather than a sub-prime loan.

The Effect on our Neighborhoods and Community

There is huge domino effect to this problem for us all. Local governments are faced with lack of revenue from property taxes, construction and sales taxes. We still need to provide services to our citizens. Our Bond rating has fallen and the City is doing what they can to survive in tough times. We hope we won't have to file bankruptcy like Vallejo was forced to do. The blight and vandalism in neighborhoods is evident throughout our communities with little or no signs of recovery. This will only lead to additional decreases in property values. The City of Stockton has passed an ordinance requiring banks and lenders to maintain their properties or they will be subject to Code Enforcement violations. We hope this will help some neighborhoods recover from the eerie feeling you get when you drive through the neighborhoods and see vacant home after vacant home. We must not forget that many of our investors who have bought homes and rented them to families, have lost their investments and many of these renters have been caught off guard. Even though the

rent may be paid, the mortgage may not have been paid. The sheriff knocks on their door and informs them that they must leave. These families are then left to deal with not receiving the rent back or the deposit. Remember this crisis affects everyone! Take a minute and count how many jobs or services are affected by one foreclosure.

We must remember the stress that has affected our families in our community. Domestic violence is up, there is a greater need for mental services and medical attention for our families and children. Current efforts to address this issue:

- Current efforts today - including those by industry and the government – are not working. My counselors face an uphill battle every time they work with a family struggling to keep their home. You have read stories about our troops being sent to battle without proper equipment to fight the war. Our counselors have been sent into their own battle without much help either. We were told that banks and mortgage companies would work with us, yet somewhere along the way investors, servicers and loan mitigation departments fail to come through. National foreclosure solutions are not one-size fits all. Northern California and the Central Valley have unique challenges. We need Congress to closely monitor the situation and be committed to continuous action over the next year. For example, " The Hope for Homeowners Act". This is a foreclosure rescue product that will be run through FHA. In order to qualify the borrower's loan must have originated prior to March 1, 2008. The program is slated to begin October 1st. Banks are telling us it is going to take months after that date to get everything ready. This program is VOLUNTARY. So banks/servicers may not choose to use the program. Here is how it works: The bank agrees to

write down the principle balance of the loan to 90% of the current appraised value. They are allowed to go lower if it makes the loan more affordable for the borrower. The borrower is then refinanced into a fixed rate FHA loan program. The borrower has to share a set amount of appreciation with FHA. (which is understandable) HERE IS THE CATCH: The homes in our area have lost so much value that families are already so far underwater, banks may not be willing to use the program. Here is an example:

- House was purchased in 2006, valued at $400,000 and the loan amount is $375,000. In 2008, the home is now valued at $225,000 and the family still owes $375,000 because it was an interest only loan. 90% of $225,000 is $202,500. That means the bank would have to write off $172,500 to get the LTV back down to 90%. Because of the incomes in the central valley, they may have to go even lower. Keep in mind that this doesn't even tackle the problem of families that have Option ARMs.

We may need to take a further look into this bill and amend the bill to really help those communities that were hit the hardest.

As with any disaster, we must begin the healing process. We believe that the Stimulus Bill will be good for our community. We must make sure that Stockton does receive adequate funds that will be allocated to communities hit the hardest. After being #1 in foreclosure we should be on top of the list to receive allocation from "The Neighborhood Stabilization Fund" This is $4 billion of CDBG funding that will go to nonprofits to rehab foreclosed properties. Why are these funds so

important to our community? Because being a non-profit affordable housing provider our mission has always been to provide safe and decent housing. The vandalism that has occurred in these foreclosed homes should not be passed on to the new homeowner. By purchasing these properties and renovating them, we will pass the keys on to a homeowner to enjoy their new home, instead of having a homeowner who is worrying about unaffordable repairs needed for the home.

In conclusion, there is much work to be done in order for our community to bounce back from this disaster. I know our community is resourceful. But we must learn from this lesson and look to the future to avoid the pitfalls that may be lurking. Continuing "Homeownership Education" is crucial! Every homeowner should be required to attend the workshops and meet with a housing counselor to explore the options available to them. Every homeowner must be educated to understand exactly how much mortgage they can afford in order to keep their home for the long term, not just buy a home they can only afford to live in for two years, and then lose that home in a traumatic foreclosure. We must rely on the government for greater accountability in the mortgage servicing industry. Many of the efforts so far - especially at the federal level - rely heavily on the voluntary participation of investors, lenders, and servicers. Mortgage servicers are the lifeline between the borrower and their rescue options. Yet, our experience shows that many servicers aren't willing to accept even basic modification requests. Others are slow to respond, leaving our clients to rack up high fees while they wait. On the other hand, where we have a servicer that is willing to work with us, it makes all the difference. This is how we are able to save families from foreclosure.

We must take another look at the underwriting criteria if we are going to move these homes from foreclosure to homeownership.

The governor recently announced a pool of funds to be used in the hardest hit areas. To date not one loan has closed. Why? I believe we went from extremely loose underwriting guidelines to very tightly regulated guidelines. There needs to be a middle ground. We did many FHA loan in the past so let's look at what worked and what didn't work and find the middle ground. People are not perfect and sometimes there are bumps along the way but that does not mean that they can't be responsible for a mortgage loan. I just want to share with you one highlight, if there can be one in the midst of a disaster. The City of Stockton has always had a down payment assistance loan program and has made hundreds of loans to low income buyers. All users of the down payment assistance program must participate in a Homebuyers Education class provided by a HUD approved housing counseling agency. Throughout this housing crisis we can proudly say that out of those hundreds of loans, there has only been one foreclosure. We can attribute that success rate to the requirement of housing counseling and the use of prime loans. And we must applaud these families because they were all low income families. Maybe the market should take a look at this fine example.

The task of cleaning up our neighborhoods will not be easy and will take time but we must learn from our lesson and move on........

We can bring back the "Dream of Homeownership"

Thank you for your time.

TESTIMONY OF

HEATHER PETERS
DEPUTY SECRETARY FOR BUSINESS REGULATION AND HOUSING AT CALIFORNIA'S BUSINESS, TRANSPORTATION AND HOUSING AGENCY, AND CHAIR OF GOVERNOR SCHWARZENEGGER'S INTERDEPARTMENTAL TASK FORCE ON NON-TRADITIONAL MORTGAGES

HEARING ENTITLED
"THE EFFECTS OF THE FORECLOSURE CRISIS ON NEIGHBORHOODS IN CALIFORNIA'S CENTRAL VALLEY: CHALLENGES AND SOLUTIONS"

BEFORE THE
COMMITTEE ON FINANCIAL SERVICES

SEPTEMBER 6, 2008

Testimony of Heather Peters

Good morning Chairman Frank and members of the Committee, my name is Heather Peters and I am the Deputy Secretary for Business Regulation and Housing at California's Business, Transportation and Housing Agency. In that role, under Secretary Dale Bonner's designation, I provide continuous oversight on his behalf of four departments that regulate mortgage lenders, brokers, real estate sales and appraisals. I also oversee the California Department of Housing and Community Development and sit on the board of the California Housing Finance Agency (CalHFA) by designation of the Secretary.

Additionally, I am the Chair of Governor Schwarzenegger's Interdepartmental Task Force on Non-Traditional Mortgages. On behalf of Governor Schwarzenegger and Secretary Bonner I thank you for the opportunity to testify here today. We appreciate the committee's interest in this important subject and your travel to Stockton, one of the hardest hit areas in the nation's foreclosure crisis.

I have been asked by the Committee to address several subjects, including the State's response to the foreclosure crisis, collaborative initiatives, future predictions, mitigation of community destabilization and benefits of the new federal housing laws.

DESCRIBE WHY STOCKTON AND OTHER CITIES IN THE CENTRAL VALLEY ARE SO HARD HIT BY FORECLOSURES AND DETAIL THE EFFORTS OF LOCAL, STATE AND FEDERAL ENTITIES TO ADDRESS THE CRISIS.

There are many factors contributing to the high instance of foreclosures in California including lack of affordable housing, deterioration of lending standards, fraud, abuse, misuse of mortgage features, unreasonably optimistic assumptions of continued price appreciation, investor speculation, lack of market absorption of increased inventory, decreased liquidity and loan servicing challenges. The effects of these have been amplified in geographic areas such as the Central Valley where there was a high concentration of new home building and subprime lending.

There is no silver bullet to solve the foreclosure crisis. It is a multifaceted problem that requires a multifaceted solution. Discussed below are a number of steps California has taken to help address various different aspects of the problem.

COLLABORATION:

- **Interdepartmental Task Force:** In early 2007, Governor Schwarzenegger's Interdepartmental Task Force on Non-traditional Mortgages was formed to ensure a comprehensive and coordinated approach to the issue raised by these loans.
- **Agreements with loan providers:** On November 20, 2007 Governor Schwarzenegger announced the first in the nation agreement with loan servicers to streamline the modification of loans to freeze interest rates for some at-risk borrowers. His staff now meets quarterly with loan servicers, consumer advocates and counselors to discuss additional methods for streamlining loan modification decisions, including setting up "servicer days" where senior staff from a servicer can meet with counselors regionally to make decisions on pending loan modification requests in bulk.

- **Governor Schwarzenegger joined the OneCalifornia Foundation to announce a bridge loan fund** for homeowners facing foreclosure in Oakland to highlight the need for private partnerships to compliment government policies.
- **Local roundtables:** Governor Schwarzenegger and his staff have traveled throughout the state to meet with local government and stakeholders to discuss the different challenges they are facing in their regions and the various sources of help available.
- **National collaboration:** Governor Schwarzenegger and I have met with many national leaders to share successes and to strategize as discussed below.

REGULATION:

- **Issued new regulations to protect borrowers:** The Departments of Real Estate and Corporations issued strict new regulations requiring lenders to consider a borrower's ability to repay at the full interest rate and to closely scrutinize risk features. A new early disclosure form requires calculation of worst case scenario payments and loan balances under all available loan programs while consumers still have time to shop around.

LEGISLATION:

- **Legislation increasing protections:** In 2007 Governor Schwarzenegger signed three bills to increase protections for Californians who own or plan to purchase homes and to expand affordable housing.
    - SB 223 made it a crime for licensed appraisers to engage in any appraisal activity that is connected to the purchase, sale, transfer, financing or development of property if their compensation is impacted by the final price generated by the appraisal.
    - SB 385 permitted state agencies involved with residential mortgage lending and brokering to adopt the regulations discussed above on an emergency basis.
    - AB 929 increased the amount of affordable housing in California by raising the total debt that the California Housing Finance Agency (CalHFA) can carry by $2 billion. CalHFA issues bonds to finance housing for low and moderate-income families.
- **Legislation addressing foreclosures:** In 2008 Governor Schwarzenegger signed SB 1137 that requires lenders to attempt to contact borrowers before they file a notice of default to explore options to foreclosure. This new law also authorizes fines against lenders if they fail to maintain foreclosed properties and requires them to give any renters in the properties 60 days notice prior to eviction.
- **Letters to congressional leadership:** Governor Schwarzenegger wrote several letters urging Congress to increase funding for counseling and to raise FHA and GSE mortgage loan limits as accomplished in the Housing and Economic Recovery Act of 2008.

EDUCATION:

- **$1.16 million in grant funds:** In September of 2007 the Housing and Community Development Department made $1.16 million in Community Development Block Grant Funds available for counties and cities to use for consumer mortgage counseling.
- **$8 million federal mortgage counseling grant** was received by the California Housing Finance Agency in partnership with the Rural Community Assistance Corporation (RCAC) and with the California Reinvestment Coalition (CRC) to help California homeowners avoid foreclosures.
- **$1.2 million public awareness campaign:** Governor Schwarzenegger launched a $1.2 million public awareness campaign to educate home owners about ways they can avoid foreclosures including a series of foreclosure prevention town hall workshops in the hardest hit areas around California.
- **The State partnered with HOPE Now** to promote the 888-995-HOPE hotline and launch HOPE Now's national consumer outreach tour with three California events, including one in Stockton.

STIMULUS:

- **$5.6 million from the Federal Government to help mortgage and banking industry workers laid off** as a result of the subprime crisis make career transitions to high-demand jobs in other industries.
- **$1.06 billion in Proposition 46 and 1C funds:** Since July 19, 2007, $1.06 billion in bond awards have been announced to help more than 23,000 California families rent or purchase affordable housing.
- **$72 million in federal HOME Investment Partnerships Program funds:** On January 30, 2008 awards totaling more than $72 million in federal HOME Investment Partnerships Program funds were announced. Funds will be used to provide assistance to first-time homebuyers, reduce the number of bank owned homes and increase the number of rental properties.
- **$200+ million CalHFA Community Stabilization Home Loan Program** (discussed below) will help first time home buyers purchase foreclosed properties below market.

DESCRIBE ANY ADDITIONAL EFFORTS, PARTICULARLY COLLABORATIVE INITIATIVES, AMONG FEDERAL, STATE AND LOCAL GOVERNMENTS THAT COULD HELP IMPROVE THE FORECLOSURE SITUATION.

Dialog with the federal government and with other states has been ongoing as response strategies have been developed and implemented during this national crisis. Discussed below are a few of these collaborations.

- **Governor Schwarzenegger met with President Bush and with the Secretary of Housing and Urban Development** to discuss federal efforts needed to reinvigorate California's housing market.

- **Governor Schwarzenegger led a town hall meeting with U.S. Treasury Secretary Paulson** in Stockton to publicize help available for homeowners facing foreclosure and to discuss new agreements with loan servicers to streamline loan modifications.
- **Governor Schwarzenegger met with FDIC Chairwoman Bair and Secretaries Bonner and Marin held a roundtable with her** in Los Angeles with lenders, consumer advocates and other stakeholders to discuss minimizing impediments to loan modifications.
- **As Chair of the Task Force I have addressed two regional conferences hosted by HUD and one hosted by the FDIC** to educate local stakeholders regarding the status of the market and government responses.
- **I have met with FHA Commissioner Brian Montgomery** to discuss the reinvigoration of FHA lending in California thanks to H.R. 3221 and the challenges posed by the loss of local FHA expertise due to FHA's 98% reduction in California loan originations between 2000 and 2006.
- **I participated in a stakeholder roundtable hosted by HUD Secretary Preston and Congressman Gary Miller** in the Inland Empire to discuss implementation of new federal and state loan programs.
- **The Secretary of HUD and I appeared together to kick off HOPE Now's national series of homeowner assistance events** to bring servicers together with borrowers face to face to discuss options available to avoid foreclosure.
- **I spoke at the National Governor's Association's Foreclosure Summit in Washington, DC** to share California's innovations with other state policymakers and exchange strategies for addressing the crisis.

Collaboration will continue in October as HUD, the U.S. Treasury and the National Governor's Association are planning a summit in Washington, DC to bring together national policy leaders to coordinate the implementation of various programs established in the new federal housing laws.

WHAT ARE THE FUTURE PREDICTIONS FOR FORECLOSURE IN THE CENTRAL VALLEY, AND HOW DID YOU COME TO THIS ASSESSMENT? DO YOU EXPECT INCREASING NUMBERS OF FORECLOSURES IN THE SHORT AND LONG-TERM? IF SO, AT WHAT POINT WILL THE AREA EXPERIENCE A TURNAROUND IN THE HOUSING MARKET?

If we have learned anything from this crisis it most certainly is that the housing market is unpredictable. We are experiencing a never before seen contagion of financial distress and tightening of liquidity which may have long lasting effects on California's housing market.

With that said, we are seeing some improvement in traditional measures of housing market performance driven largely by reduction in prices. In October of 2007 the statewide median price of a single family residence dipped below $500,000 for the first time in recent memory. It is now $350,760 according to the California Association of Realtors (CAR).[1] Regional median

[1] See Chart 1 in attached Exhibits to this testimony. Median prices from January of 2007 through August 2007 may have skewed high due to contraction in subprime lending resulting in fewer home sales at the lower end of the market. Subsequent contraction

prices have generally fallen across California due to the onset of the credit crunch.[2] Fewer and fewer regions have seen growth in median prices.[3]

The silver lining is that reduced prices have almost steadily resulted in increased sales recently, both month to month and year over year.[4] According to a recent survey by the California Building Industry Association, affordability in San Joaquin County has more than doubled since the last three months of 2007 with 35.5% of homes sold being affordable to families earning median incomes. This is a dramatic increase from just 9.7% in the first quarter of 2007. According to this study, the Sacramento area is now California's most affordable market at 49.7%. CAR also recently reported good news on affordability. Statewide CAR reports that 48% of households can now afford an entry-level home compared with only 24% last year.

Equally important to improving the overall health of California's housing market is the fact that the volume of housing inventory on the market has finally begun to drop.[5] Inventory is measured by the number of months it would take to sell all homes on the market at the current rate of sales. In April of this year, existing inventory was down below the same month one year before. Current inventory statewide is down to 6.7 months from 10 months a year ago. This is a significant improvement over the recent high of 16.8 months in January of this year.

Inventory levels are the factor most often cited by housing economists when asked to predict the bottom of a real estate downturn. Other factors routinely considered are the median number of days it takes to sell a home once it is put on the market. This measure has also improved dropping below the year over year level in April.[6] Another factor to be considered is that interest rates which have been rising slightly in recent months, but still remain historically low.[7] In July of 2008, CAR reported an average 30-year fixed mortgage rate of 6.43% vs. 6.7% one year prior, and an average adjustable mortgage rate of 5.24% vs. 5.71% last year. The passage of the permanent loan limit increases in H.R. 3221 should help reduce interest rates on jumbo loans as the secondary market now has certainty of the loan limit levels beyond the end of this year.

---

in the jumbo lending market resulting in fewer home sales at the high end of the market has helped accelerate the drop in median price.

[2] See Charts 2-4 in the attached Exhibits. Note CAR's reporting regional data for the Central Valley stopped after August of 2007.

[3] See Chart 5.

[4] See Charts 6-8

[5] See Chart 9

[6] See Chart 10

[7] See Chart 11

However, there are factors that continue to deteriorate the housing market in California. Defaults are still high across the state, though they have started to level off at approximately 37,000 per month according to DataQuick.[8] Some counties have started to see drops in the level of defaults including Sacramento, San Joaquin and Fresno.[9] This is due in part to the fact that fewer subprime adjustable loans have been resetting as we reach the third anniversary of the 2005 vintage loans and the second anniversary of the 2006 vintage.

It is also due in part to the success of state and federal agreements with loan servicers to streamline loan modifications when default is imminent due to reset. The California Department of Corporations has collected the following recent data under Governor Schwarzenegger's voluntary agreement with loan servicers:

> "The June results show that both the total number of loan workouts initiated and the number of loan workouts closed have increased. Especially important is that the total number of loan modifications – the type of workout most beneficial to consumers – has risen significantly, from 8,686 in May to 10,261 in June. This represents an 18% increase in loan modifications over last month. Over the same period, the number of foreclosures reported remained static, actually dropping slightly in June. A further encouraging sign is that loan modifications continue to rise as a share of total workouts. In May, loan modifications were 40.67% of total workouts. In June, loan modifications now represent 47.32% of total workouts.
>
> It should also be noted that if the monthly numbers are combined as quarterly figures, the count of loan modifications rose from 19,391 in first quarter 2008 to 28,395 in the second quarter, a 46.43% increase."

Nevertheless, completed foreclosure sales continue to rise, with 23,685 foreclosures completed in California for the month of June 2008 according to DataQuick. Foreclosures are still particularly high in the Central Valley where the counties of Stanislaus, San Joaquin and Sacramento reported foreclosures in June of 2008 of 851, 1155 and 1640 respectively. [10] San Bernardino, Riverside and Los Angeles counties were even worse reporting 2,428, 3,222 and 3,676 foreclosures in June of 2008 respectively. These numbers are not surprising as foreclosure sales follow default notices by at least 90 days and defaults are only now beginning to level off.

Looking further into the future, California's housing recovery could be negatively affected if the overall economy deteriorates and more traditional drivers of foreclosures such as unemployment continue to rise. California's Employment Development Department recently reported that the State's unemployment rate increased to 7.3% in July, up from just 5.4% last July.

---

[8] See Chart 12

[9] See Chart 13

[10] See Charts 14 & 15

Additionally, just as the worst vintages of subprime loans finish resetting, new problems are emerging in "Alt-A" and "Prime" mortgage markets where even borrowers with good credit scores are defaulting at higher rates as home prices and equity fall. Finally, California is expected to be particularly hard hit by resets on "Option ARM" loans which begin in earnest in 2010 and continue throughout 2011.[11] According to the New York Federal Reserve Bank 53% of all Option ARMs nationally are in California. It is hoped that mortgage holders will take advantage of the new FHA Hope for Homeowners loan program created by H.R. 3221 to refinance these borrowers and others into new affordable FHA loans.

DESCRIBE THE LARGE DESTABILIZING EFFECTS THAT OCCUR IN A NEIGHBORHOOD WHEN A FORECLOSURE TAKES PLACE, AND HOW CAN THEY BE MITIGATED?

Foreclosure statistics alone can only begin to describe how foreclosures have affected California. Property values throughout a neighborhood are decreased by each foreclosure and tax revenues decrease straining local and state budgets. Vandalism and other crime increases. Quality of life is affected as lawns in front of vacant homes die and health risks increase such as the potential spread of West Nile Virus as mosquitoes breed in undrained pools.

Collaboration between government, homeowners, non-profits and the private sector, such as discussed above, is key to creating successful local solutions to stabilize neighborhoods. Additionally, the California Housing Finance Agency (CalHFA) has created an innovative program called the Community Stabilization Home Loan Program (CSHLP).

On or shortly after July 1, 2008, CalHFA introduced the $200 million CSHLP program to help put first-time homebuyers back in foreclosed properties in targeted communities of the State that have been hardest hit by foreclosures and in areas in need of economic stimulus. This program offers 30-year below-market fixed rate loans and affordable mortgage insurance to qualifying buyers.

Participating financial institutions agreed to make these foreclosed properties available at a minimum 12% reduction off current appraised values. Putting homeowners back in these properties will help revitalize hard-hit communities, stabilize home values and help provide economic stimulus to local neighborhoods. It is estimated that the program will provide between 800 and 1000 loans to first-time homebuyers. These loans will put homeowners instead of speculators and investor/landlords in these neighborhoods.

Although CSHLP is not designed to save existing borrowers in default, it does provide a viable, effective and potentially statewide beneficial use of foreclosed properties for affordable housing purposes. Ultimately, the program will get the foreclosed properties re-distributed much quicker in many cases than if the properties were "worked off" by the financial institutions.

Originally the program was offered in four counties (San Joaquin, Merced, Stanislaus and Riverside) and in an additional ten zip codes in the Bay Area, the City of Los Angeles and parts

[11] See Chart 16

of Los Angeles and San Bernardino Counties. The program has since been expanded to include an additional four counties (Sacramento, Contra Costa, San Benito and Monterey) and additional zip codes in the City of Oakland.

An expansion of CSHLP to cover the entire state is now being contemplated with anticipated funding from the recently enacted H.R. 3221. This new law contains additional tax-exempt bond authority (a.k.a. "bond cap") for housing bonds that could fund additional loans. A total of $1.177 billion of additional bond cap is expected for California under the new law. The law also contains expanded authority for use of tax-exempt housing bonds for the purpose of refinancing subprime loans (defined in the law as "adjustable rate mortgages") of borrowers that are in "hardship" – a term to be defined by the bond issuer. The California Debt Limit Allocation Committee, the state entity that allocates bond cap to issuers, met on September 3, 2008 and outlined a process that will result in allocation of the additional bond cap by early December 2008.

TO WHAT EXTENT WILL PROVISION OF THE NEW FEDERAL HOUSING LAWS HAVE A POSITIVE EFFECT ON THE REGION, AND WHAT STEPS SHOULD BE TAKEN TO ENSURE THAT CENTRAL VALLEY COMMUNITIES WILL BENEFIT FROM THESE INITIATIVES?

Benefits of the new federal housing laws include the Hope for Homeowners FHA loans and the availability of additional bond cap to fund CalHFA's CSHLP program discussed above. Another significant benefit of the new law is approximately $4 billion in funding nationwide for the "Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes" program. California's Department of Housing and Community Development (HCD) is working closely with HUD to insure that California receives its fair share of these funds and utilizes them quickly and wisely.

California hopes to receive significant funding under this program as nationally it has 27.14% of the foreclosed homes, 13% of the subprime loans, 22% of the subprime debt and 26.67% of the homes in default or delinquency. H.R. 3221 requires funding formulas to consider these factors, however, HUD will not be announcing its funding formula until the end of this month.

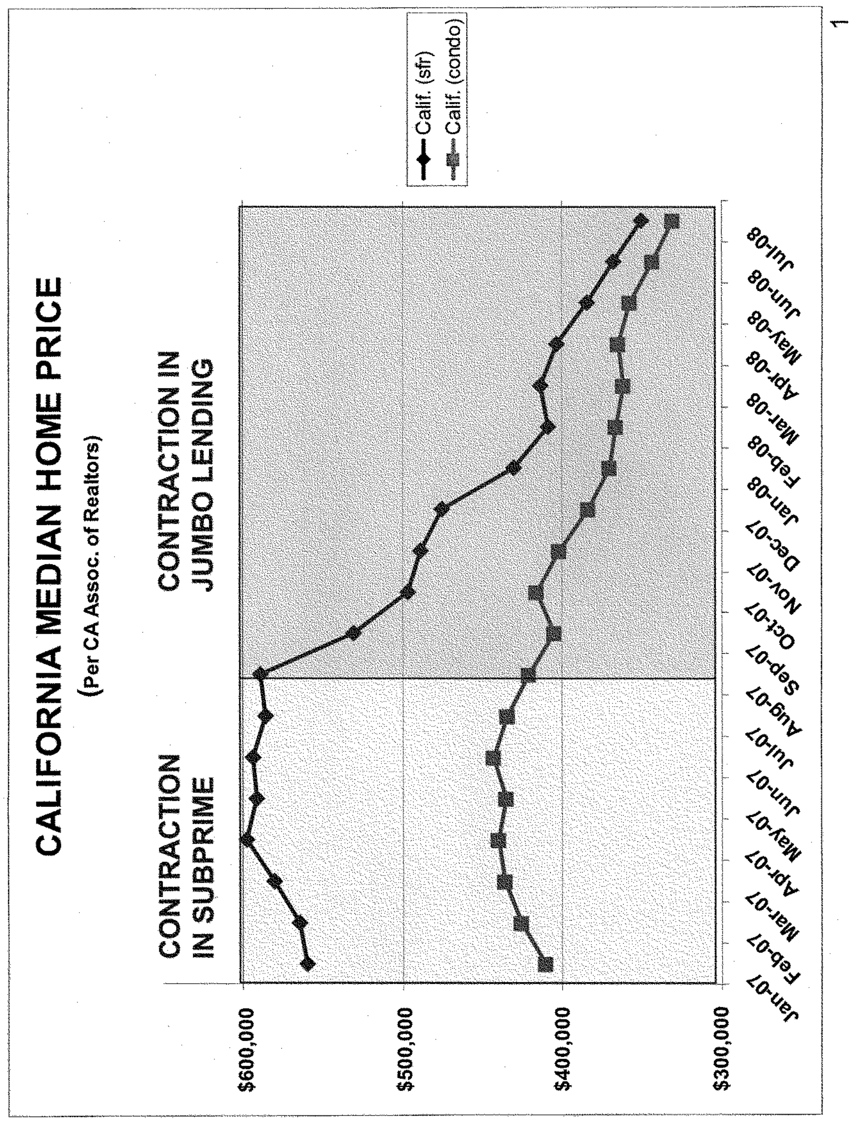
Additionally, on August 11, 2008, HCD announced $30.4 million in Community Development Block Grant awards for 36 non-entitlements in California. The Central Valley received approximately $7.2 million of those awards.

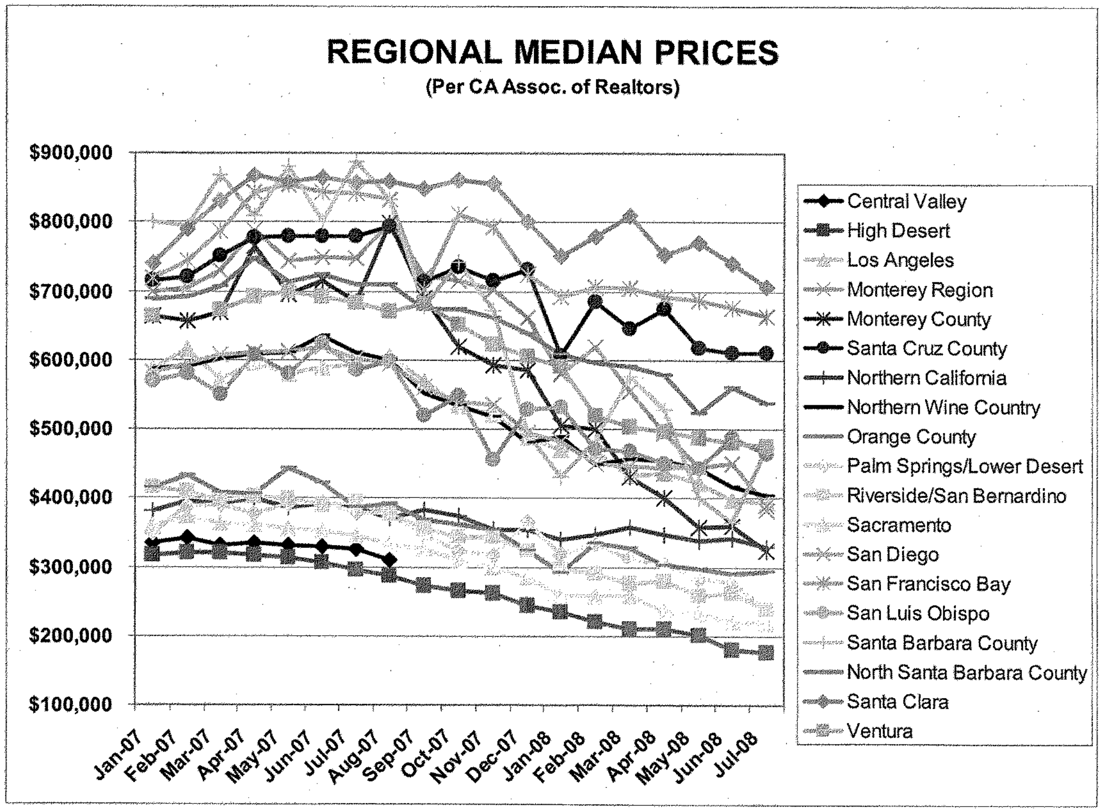
I hope this discussion of our efforts and accomplishments has emphasized California's commitment to aggressively address the crisis. In so doing, Governor Schwarzenegger encourages others to do the same as only multifaceted solutions reaching across local, state and federal jurisdictions, and across public and private partnerships, can begin to address this multifaceted problem. The Administration remains firmly committed to collaborating with all stakeholders and to find innovative ways to lead us out of this crisis and restore the American dream in California and across the nation.

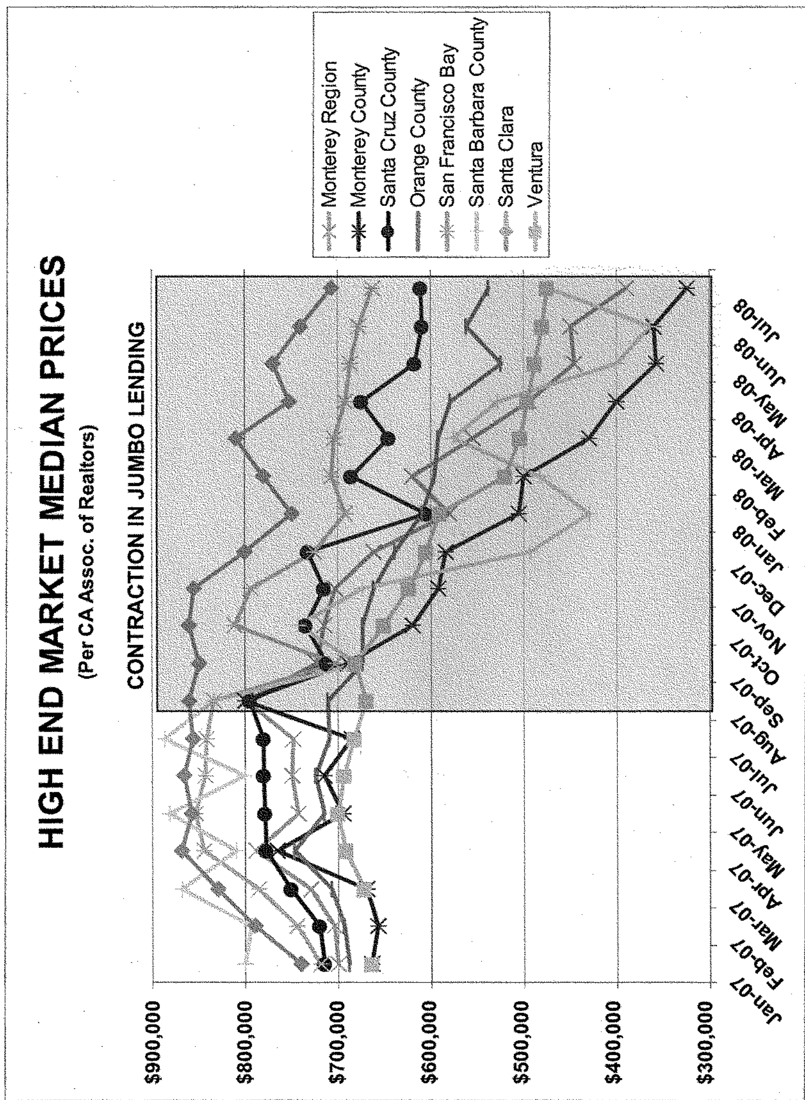
This concludes my statement. I thank the Committee for the opportunity to meet with you today to discuss this important issue. I look forward to taking any questions you may have.

EXHIBITS TO TESTIMONY OF

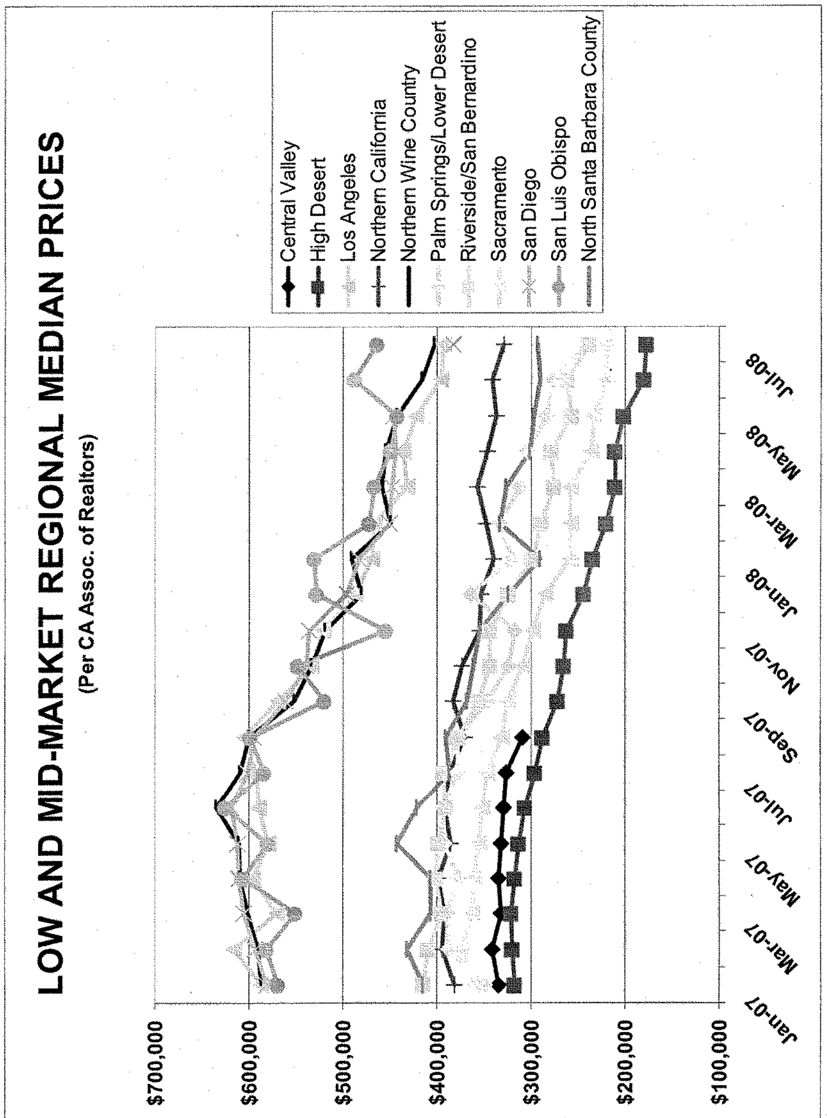
HEATHER PETERS


CALIFORNIA MEDIAN HOME PRICE
(Per CA Assoc. of Realtors)
CONTRACTION IN SUBPRIME
CONTRACTION IN JUMBO LENDING
$600,000
$500,000
$400,000
$300,000
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Calif. (sfr)
Calif. (condo)
1

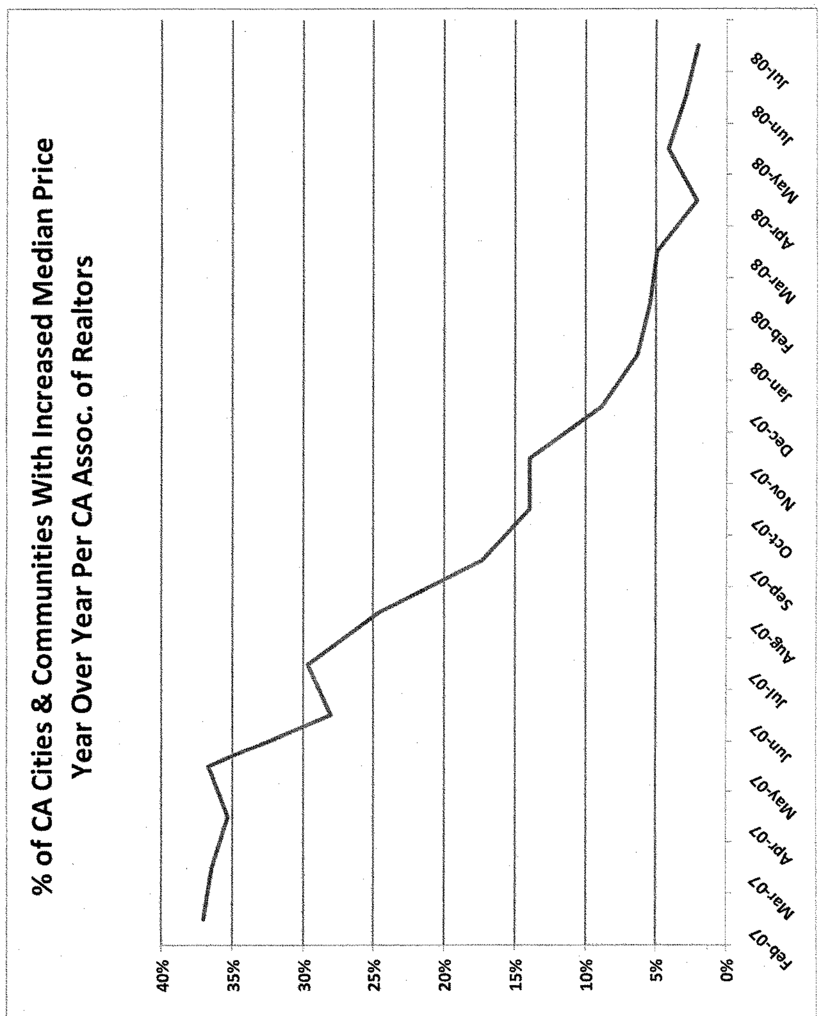

REGIONAL MEDIAN PRICES
(Per CA Assoc. of Realtors)
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Central Valley
High Desert
Los Angeles
Monterey Region
Monterey County
Santa Cruz County
Northern California
Northern Wine Country
Orange County
Palm Springs/Lower Desert
Riverside/San Bernardino
Sacramento
San Diego
San Francisco Bay
San Luis Obispo
Santa Barbara County
North Santa Barbara County
Santa Clara
Ventura


HIGH END MARKET MEDIAN PRICES
(Per CA Assoc. of Realtors)
CONTRACTION IN JUMBO LENDING
Monterey Region
Monterey County
Santa Cruz County
Orange County
San Francisco Bay
Santa Barbara County
Santa Clara
Ventura
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08

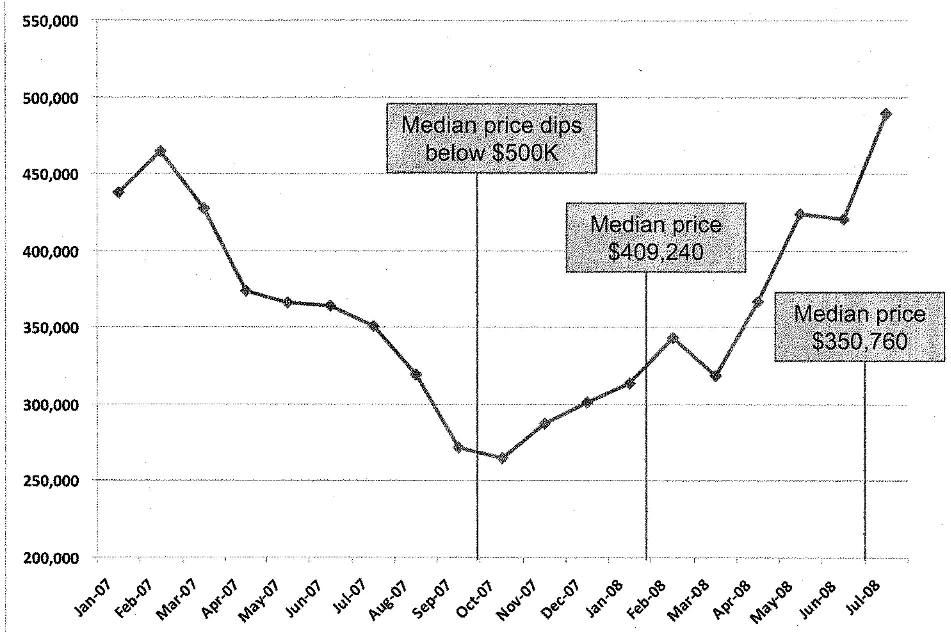
3


LOW AND MID-MARKET REGIONAL MEDIAN PRICES
(Per CA Assoc. of Realtors)
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
Jan-07
Mar-07
May-07
Jul-07
Sep-07
Nov-07
Jan-08
Mar-08
May-08
Jul-08
Central Valley
High Desert
Los Angeles
Northern California
Northern Wine Country
Palm Springs/Lower Desert
Riverside/San Bernardino
Sacramento
San Diego
San Luis Obispo
North Santa Barbara County

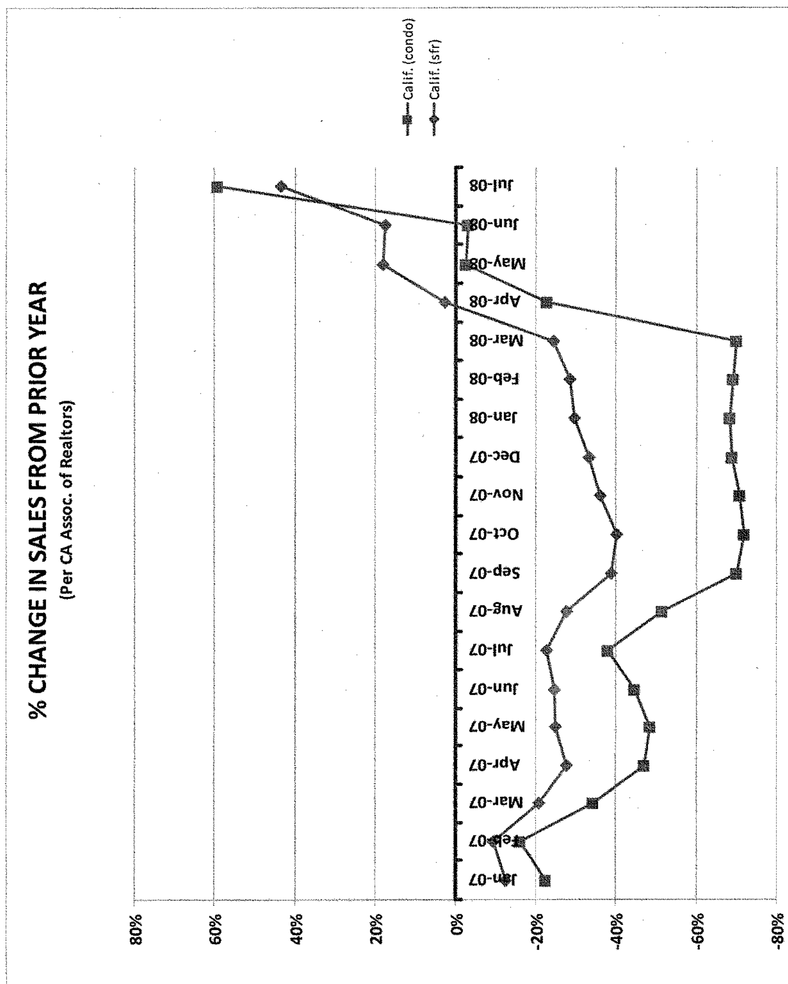
5


% of CA Cities & Communities With Increased Median Price
Year Over Year Per CA Assoc. of Realtors
40%
35%
30%
25%
20%
15%
10%
5%
0%
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08

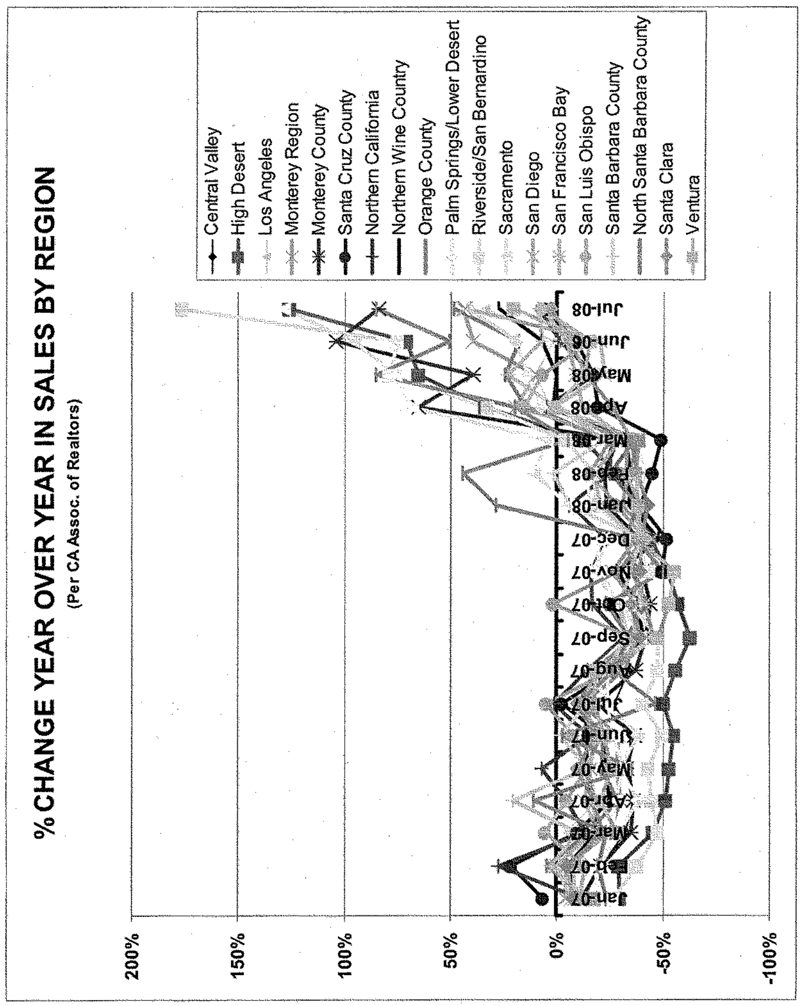
OF CLOSED SALES OF CALIFORNIA SINGLE FAMILY RESIDENCES (Per CA Assoc. of Realtors)

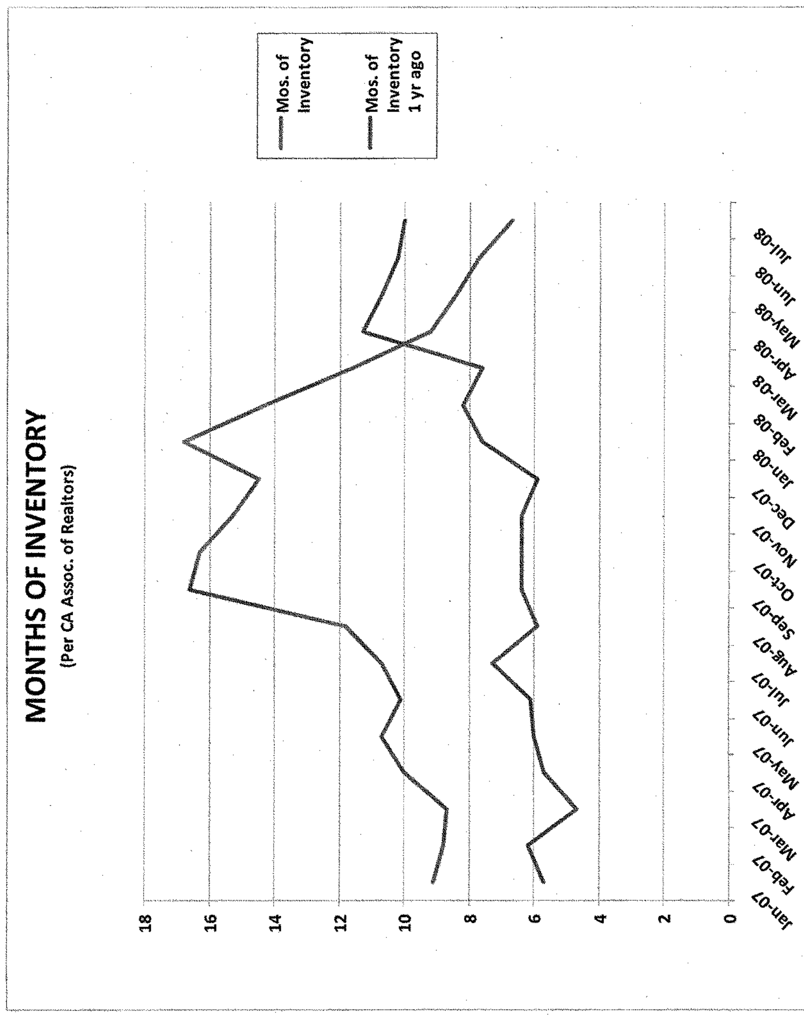


"Significant price declines are spurring home sales to bargain hunters and first-time buyers at the middle- and low-end of the market, especially in areas with a concentration of distressed properties." – CAR April 2008

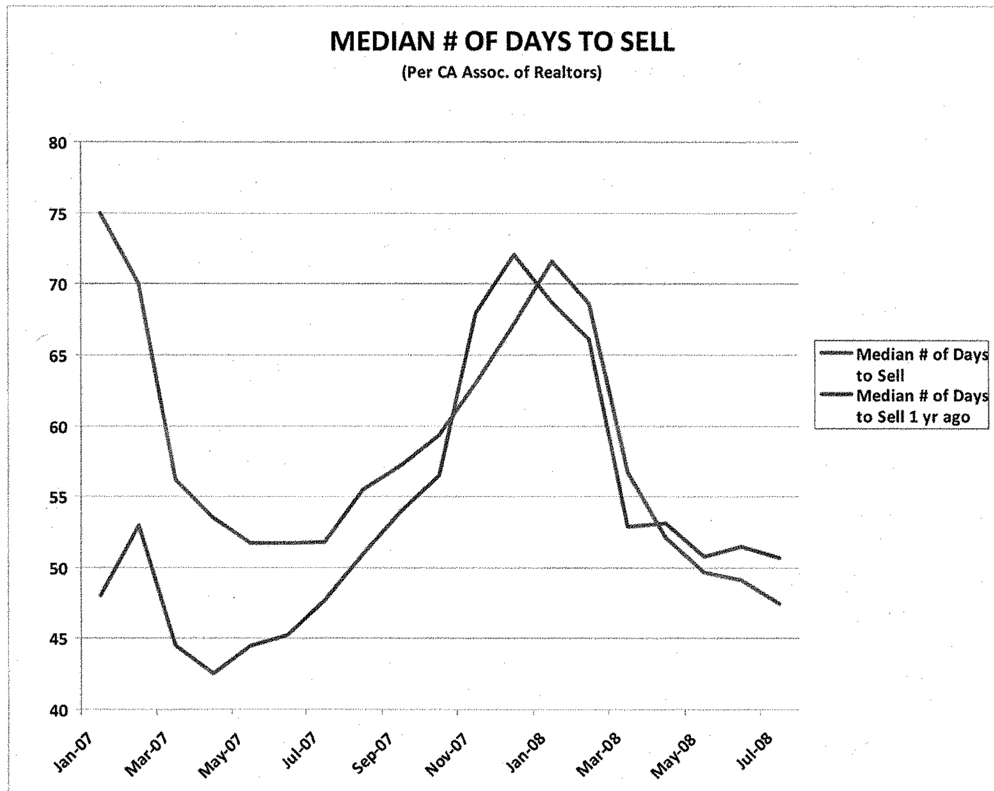

% CHANGE IN SALES FROM PRIOR YEAR
(Per CA Assoc. of Realtors)
Calif. (condo)
Calif. (sfr)
80%
60%
40%
20%
0%
-20%
-40%
-60%
-80%
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08

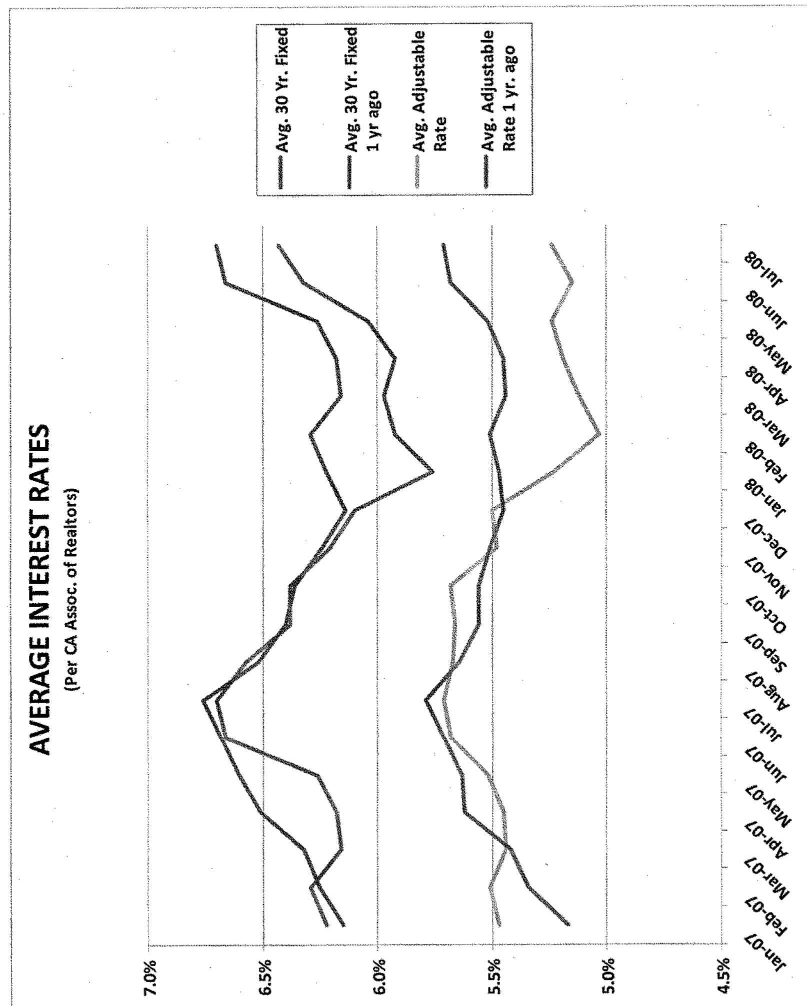
8

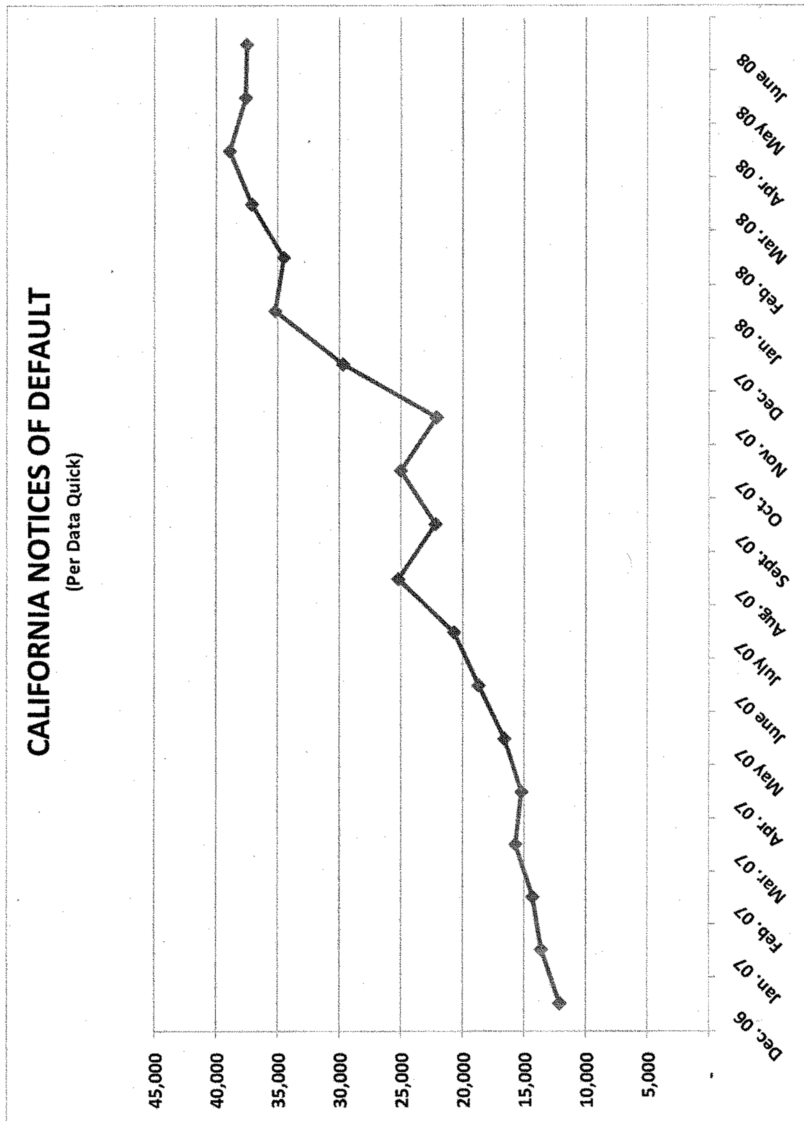

% CHANGE YEAR OVER YEAR IN SALES BY REGION
(Per CA Assoc. of Realtors)
200%
150%
100%
50%
0%
-50%
-100%
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Central Valley
High Desert
Los Angeles
Monterey Region
Monterey County
Santa Cruz County
Northern California
Northern Wine Country
Orange County
Palm Springs/Lower Desert
Riverside/San Bernardino
Sacramento
San Diego
San Francisco Bay
San Luis Obispo
Santa Barbara County
North Santa Barbara County
Santa Clara
Ventura



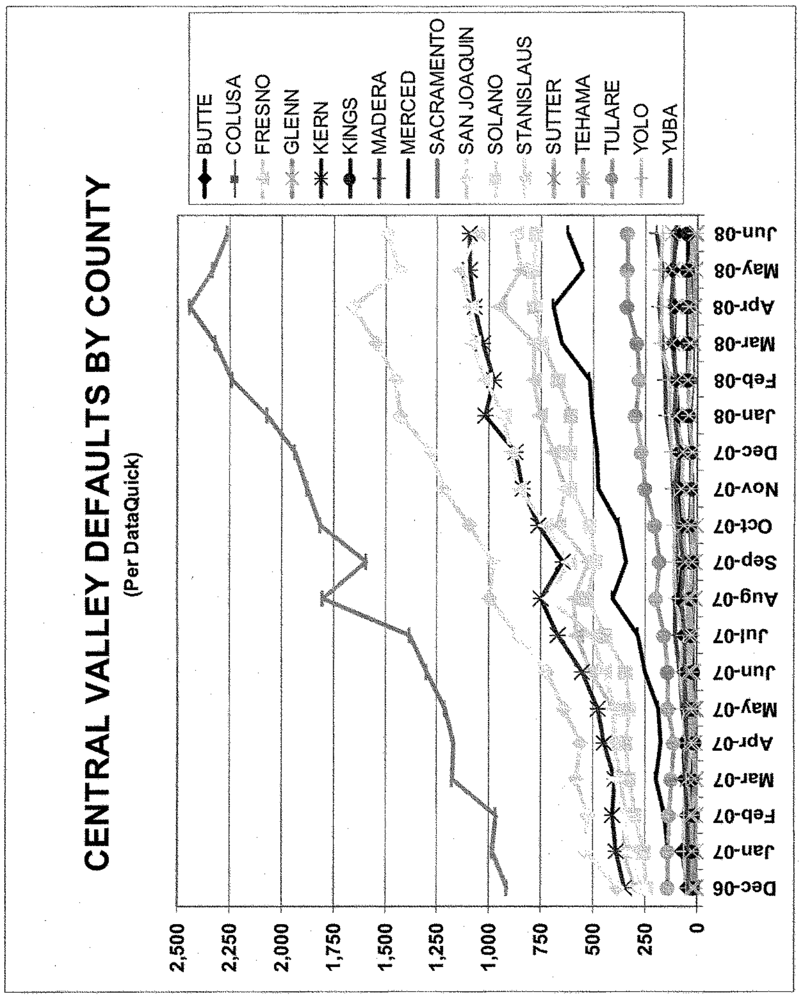
MONTHS OF INVENTORY
(Per CA Assoc. of Realtors)
18
16
14
12
10
8
6
4
2
0
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Mos. of Inventory
Mos. of Inventory 1 yr ago


MEDIAN # OF DAYS TO SELL
(Per CA Assoc. of Realtors)
80
75
70
65
60
55
50
45
40
Jan-07
Mar-07
May-07
Jul-07
Sep-07
Nov-07
Jan-08
Mar-08
May-08
Jul-08
Median # of Days to Sell
Median # of Days to Sell 1 yr ago

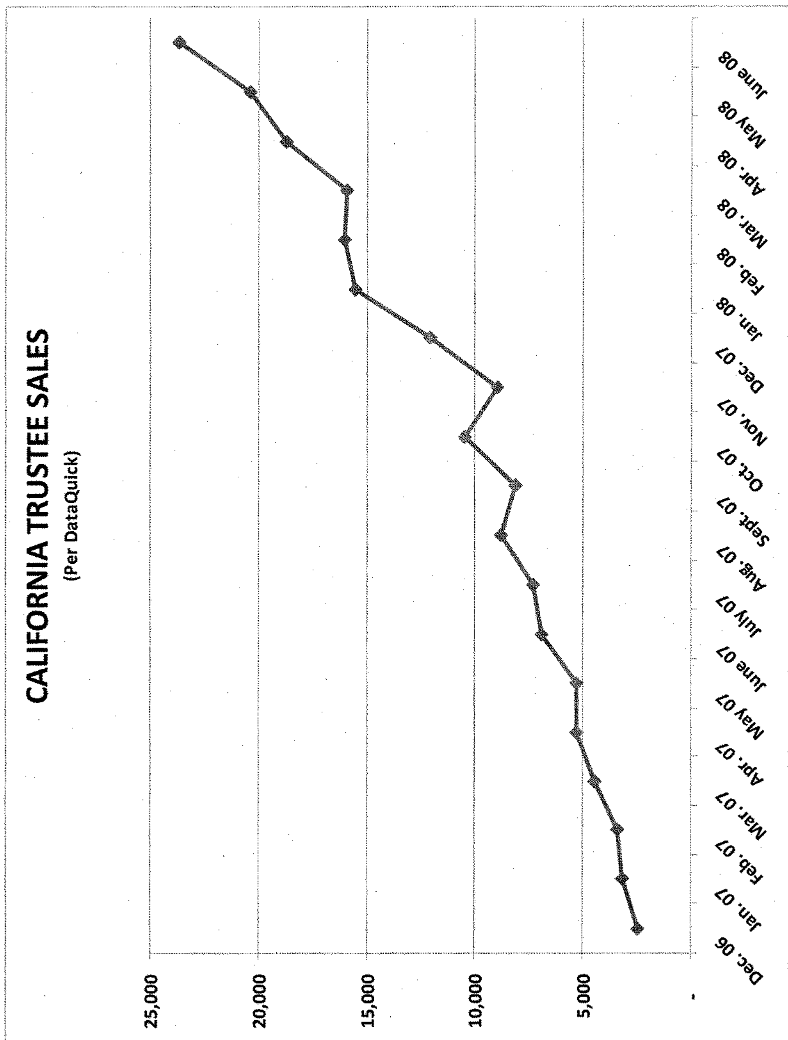

AVERAGE INTEREST RATES
(Per CA Assoc. of Realtors)
7.0%
6.5%
6.0%
5.5%
5.0%
4.5%
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Avg. 30 Yr. Fixed
Avg. 30 Yr. Fixed 1 yr ago
Avg. Adjustable Rate
Avg. Adjustable Rate 1 yr. ago


CALIFORNIA NOTICES OF DEFAULT
(Per Data Quick)
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
Dec. 06
Jan. 07
Feb. 07
Mar. 07
Apr. 07
May 07
June 07
July 07
Aug. 07
Sept. 07
Oct. 07
Nov. 07
Dec. 07
Jan. 08
Feb. 08
Mar. 08
Apr. 08
May 08
June 08

12



CENTRAL VALLEY DEFAULTS BY COUNTY
(Per DataQuick)
2,500
2,250
2,000
1,750
1,500
1,250
1,000
750
500
250
0
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
BUTTE
COLUSA
FRESNO
GLENN
KERN
KINGS
MADERA
MERCED
SACRAMENTO
SAN JOAQUIN
SOLANO
STANISLAUS
SUTTER
TEHAMA
TULARE
YOLO
YUBA


CALIFORNIA TRUSTEE SALES
(Per DataQuick)
25,000
20,000
15,000
10,000
5,000
-
Dec. 06
Jan. 07
Feb. 07
Mar. 07
Apr. 07
May 07
June 07
July 07
Aug. 07
Sept. 07
Oct. 07
Nov. 07
Dec. 07
Jan. 08
Feb. 08
Mar. 08
Apr. 08
May 08
June 08

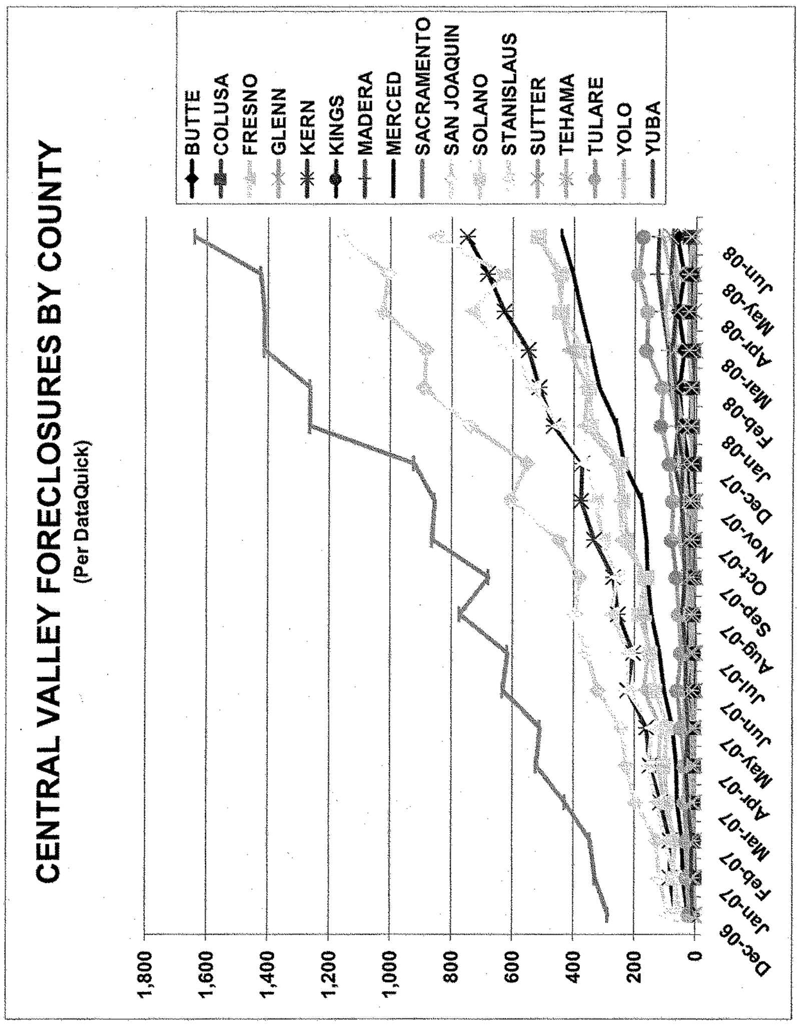
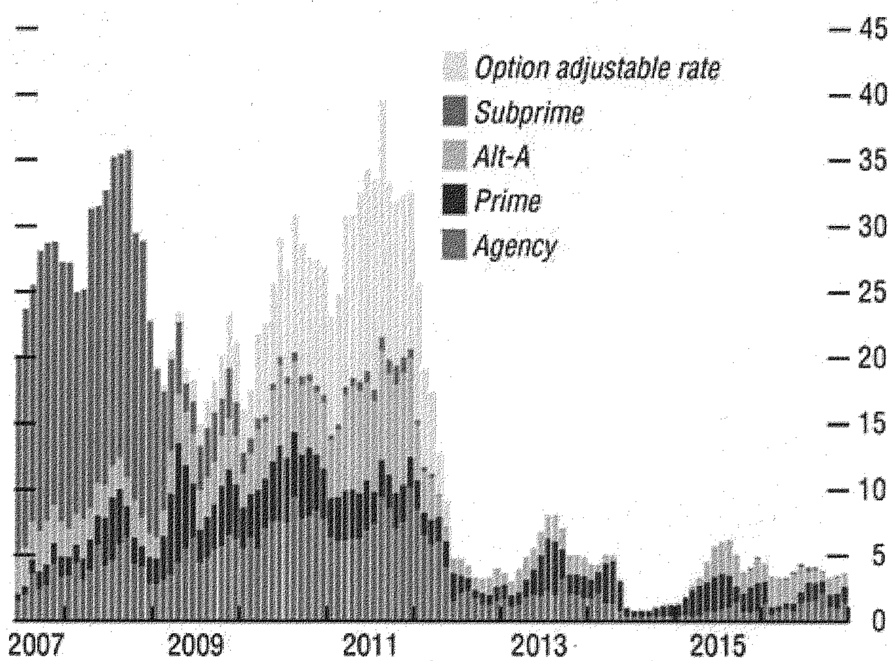

CENTRAL VALLEY FORECLOSURES BY COUNTY
(Per DataQuick)
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
Dec-06
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
BUTTE
COLUSA
FRESNO
GLENN
KERN
KINGS
MADERA
MERCED
SACRAMENTO
SAN JOAQUIN
SOLANO
STANISLAUS
SUTTER
TEHAMA
TULARE
YOLO
YUBA

Figure 1.7. Monthly Mortgage Rate Resets
(First reset in billions of U.S. dollars)



Source: Credit Suisse.

CITY OF MERCED
"Gateway to Yosemite"

OFFICE OF THE MAYOR
ELLIE WOOTEN
(209) 385-6834 • (209) 723-1780 FAX

September 3, 2008
RE: Testimony on Foreclosure Crisis

Depending on the month, Merced is No. 1, No. 2 or No. 3 in the nation in foreclosures. For too long we have lead the nation in the per capita foreclosure rate. I have had calls from television stations in Japan for interviews, the New York Times sent a reporter to follow me around, and I've talked to I don't know how many other TV stations and newspapers in the country.

In August, 2006, the president of the Merced County Association of Realtors said that as many as 80 percent of home purchases in Merced were being made by speculators, many attracted by the opening of the UC Merced campus.

Speculators created the high per capita foreclosure rate, but the subprime mortgage mess, the bad economy and the foreclosure crisis compounded the situation for local homebuyers.

More than a year ago the City of Merced took a pro-active stance to address the foreclosure crisis. The City of Merced has held foreclosure workshops to assist people in trying to refinance and avoid foreclosure. We had public service announcements on the radio in English, Spanish and Hmong. We regularly sent news releases out to advise people on options they had before getting foreclosed. We used the City newsletter to regularly advise people of the workshops and to spell out ways to get help. We partnered with our Assembly member and our State Senator to offer more workshops. And we have done everything we could to help Congressman Cardoza with his workshops.

We have no reason to believe the situation will be improving any time soon.

Last year the County Assessor recorded 112 foreclosures. A record 524 homes went into foreclosure in July bringing the total number of foreclosures for the year to 2,185. One in 20.5 homes in Merced County is in foreclosure.

In the second quarter of the year, loan default notices were sent to another 1,900 homes. That means nearly 1 in 10 homes in Merced County is in foreclosure or

near foreclosure. The research firm First American CoreLogic said that its statistics show that 15 percent of Merced County mortgages are delinquent by 90 days or more.

The delinquency rate for property taxes in Merced County is 8.3 percent this year. Last year the rate was 5.6 percent.

Because of foreclosures approximately one in 12 Merced County landowners has failed to pay property taxes. There is $20.4 million in property taxes past due, that's a little more than 8 percent of the total amount the County expected to collect. The County had to borrow $5 million to meet their Teeter Plan obligations to transfer property tax collections to school districts, cities and other agencies. This is after the County went through its $13.7 million reserve.

Due to the decrease in property values, 21,282 property owners will see their tax bills reduced this year. Assessed property values have dropped 2.4 percent over last year. Last year only 6,500 property owners saw reductions.
Foreclosures and the housing crisis have affected the City's Community Facilities Districts (Mello Roos). We have frozen the positions of two firefighters, three police officers and two police dispatchers that were to be funded by CFDS. The economic slowdown and housing slump, resulted in another 13 positions frozen in the City.

The number of houses that received warnings to clean up overgrown yards and nuisances was 3,758, almost double the number in 2006. The cost of the City weed abatement program doubled from $30,000 to $60,000. The increase is largely due to the rise in foreclosures.

Calls to our Code Enforcement officers have increased, largely due to abandoned property calls. The City Attorney's Office is working on a plan that would track properties before they become neglected and work with the lender to maintain them. The Council regularly receives complaints from the public about abandoned homes in their neighborhoods.

The foreclosure crisis has had a ripple throughout our local economy. Some examples:

BMC-West cited the housing slump as a reason for closing its Merced store after 21 years in business. It employed 25 people. 84 Lumber closed its store earlier this year citing the same problem.

Unemployment in Merced is double the national average at 11 percent. In March it peaked at 13.6 percent. Unemployed construction workers, along with title company employees and others in the housing field helped that number balloon.

MERCED TESTIMONY-3

The development Merced Paseo LLC took out a $9 million loan from County Bank in 2007. The developer now estimates the project has lost 90 percent of its value. County Bank, which has said the foreclose crisis has affected its business, laid off 20 employees Wednesday. (Sept. 3.) It posted a fourth quarter in 2007 loss of $14.2 million.

We had to call the surety bonds on two developments in order to get the necessary infrastructure improvements completed. In one case, the developer buried an existing bike path in the early phase of construction before going out of business.

There is one bright side to the foreclosure crisis. Currently 48.6 percent of the homes sold in the City are affordable to families with the median family income of $47,400. Three years ago that figure was 2.5 percent of the homes for sale.

The median price of a home in 2006 was $376,000. It is now $155,500. But that also means the property values of most Merced residents have also dropped.

The new federal housing laws cannot address all of our problems, but will help bring more affordable housing to Merced. The new laws will bring added stability to the mortgage market and help out community climb out of the financial hole they are in and try to reclaim the American Dream of truly owning a home, and not seeing it repossessed by the bank.

September 12, 2008

House Financial Services Committee
Field Hearing
Stockton, California

Documents to be submitted for the record at request of Representatives Dennis Cardoza and Jerry McNerney:

1) Letter to Rep. Cardoza from constituent Shona Lozano describing personal mortgage situation.

2) Letter to Chairman Barney Frank from home builder, American-USA Homes LLC, expressing concerns about the foreclosures' effects on the economy.

3) Letter from constituent Yvonne Casity with supporting documents describing personal mortgage situation.

4) Letter to Rep. Cardoza from constituent Mary Martin describing personal mortgage situation.

5) Letter to Rep. Cardoza with supporting documents from constituent Christina Townsell describing personal mortgage situation.

6) Letter to Rep. Cardoza from constituent Mark Stebbins describing personal mortgage situation.

7) Written testimony submitted by Mayor Edward Chavez, Stockton, California to Committee on Financial Services.

8) Letter to Chairman Barney Frank from Tina D. Beck expressing support for H.R. 6694.

9) Letter to House Committee on Financial Services from National Housing Law Project on the effects of the foreclosure crisis on renters and those using Section 8 voucher subsidies.

10) Foreclosure statistics for Merced, San Joaquin, and Stanislaus Counties.

11) Home Sale Activity Statistics for San Joaquin and Stanislaus Counties.

12) California Home Sale Price Medians by City as of July 2008.

13) Letter to Rep. McNerney from constituent Stanley Thomas on the foreclosure crisis.

14) Letter to House Committee on Financial Services from John Myrtakis on the foreclosure crisis.

15) Letter to Rep. Cardoza from constituent Margaret Reyes describing personal foreclosure

experience.

16) Letter to Reps. Cardoza and McNerney and State Sen. Machado from constituent William Von Amber Fields on the foreclosure crisis.

17) Letter to Rep. Cardoza from constituent Inez Aldridge on foreclosure crisis.

18) Letter to Rep. Cardoza from constituent Gene Pike on the foreclosure crisis.

19) Letter to Rep. Cardoza from constituents Tom and Susan McCall on the foreclosure crisis.

20) Letter from Peter Kovacs on the foreclosure crisis.

21) Letter to Rep. Cardoza from constituent Rosella Alerro describing personal foreclosure experience.

22) Letter to House Committee on Financial Services from Dolores Mika LaVelle on economic downturn.

23) Letter from ETradeBank Consumer Loan Center to borrower indicating possible "redlining" practices in Merced, CA.

Consumer Loan Center
Mailstop P5-PCLC-02-K - LTV
2730 Liberty Ave
Pittsburgh, PA 15222-4747

E*TRADE BANK

August 21, 2008

[redacted]
Merced, CA 95340-3379

RE: Account Number [redacted]

Dear [redacted]

As you may be aware, home values in many areas across the country have been decreasing. Due to these declines, and in keeping with sound risk management and responsible lending practices, E*TRADE Bank, E*TRADE Savings Bank (including as successor to E*TRADE Wholesale Lending Corp.), and E*TRADE Mortgage Corporation, as applicable, are reviewing our customers' home equity lines of credit.

Our latest valuation of your property indicates that its market value no longer adequately supports your home equity line of credit. As a result, **your ability to further withdraw funds against your line of credit has been suspended as of August 21, 2008.** This means that you will no longer be able to write checks against this account or request funds through any other means that were available.

You will continue to receive a monthly statement which will include current payment information. **You should continue to make payments on any outstanding balances** in accordance with your loan agreement. If you have automatic deduction for the monthly payment on your account, this service will continue.

You may request to regain access to your line of credit by submitting a written request that must include appropriate evidence that your property value adequately supports your line of credit. Any reinstatement request will be subject to our review and underwriting approval and your continued compliance with all other terms and conditions of your agreement. **See the attached questions and answers for specific information about how to submit this request.**

We appreciate the fact that you have handled your home equity account responsibly, and we apologize for any inconvenience you may incur. Please refer to the enclosed questions and answers for specific questions that you may have.

Sincerely,

Robert V. Burton
President

EQUAL HOUSING LENDER

The E*TRADE FINANCIAL family of companies provides financial services that include trading, investing, cash management, and lending.

Banking and lending products and services are offered by E*TRADE Bank, a Federal savings bank, Member FDIC, or its subsidiaries.
Lending products subject to credit approval.

ETRDLTV1

08212008ETRDLTV10012008

Mayor Wooten has reviewed the transcript of her testimony given September 6, 2008. She has no edits or corrections. The cover letter transmitting the transcript provides the opportunity to submit additional information. Mayor Wooten has asked that the following information be submitted:

1. Even though the City of Merced is an entitlement agency (HUD - CDBG), and with tone of the highest foreclosure rankings and unemployment rates, the City was not directly funded by HUD for foreclosure crisis assistance.

2. The City of Merced has been directed to seek assistance from the State of California - competing against other agencies that have already directly received funding from HUD.

3. At a meeting late last week, representatives from HUD who claimed responsibility for developing the distribution formula advised City of Merced staff that no foreclosure funds were distributed within counties where the County was not an entitlement agency. - This is not true. The cities of Visalia and Vallejo received direct funding and they are not in entitlement counties.

4. Please see the attached GIS generated map identifying foreclosed properties in the City of Merced (1,000 homes); and, a letter to Secretary Preston seeking redress of this error.

Please include these additional comments and the attachments in the record.

<<Merced Foreclosures.jpg>> <<NSP mayor's letter to HUD.doc>>

James G. Marshall, City Manager
City of Merced
marshallj@cityofmerced.org
209.385.6834

October 13, 2008

Honorable Steve Preston
Secretary
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, D.C. 20410

Dear Secretary Preston,

On behalf of the City of Merced, I would like to express my great disappointment at the elimination of Merced, California from your department's direct allocation of Community Development Block Grant (CDBG) funding under HR 3221, the Housing and Economic Recovery Act, 2008. The City of Merced—**an entitlement jurisdiction**—has consistently ranked nationally as one of the community's hardest hit by the housing foreclosure crisis. The City has made headlines in every major newspaper and has made the cover pages of NY Times and London Financial Times. Your department, however, has ruled that Merced is not considered eligible to receive direct funds from HUD.

On October 10, 2008, at the HUD-hosted Neighborhood Stabilization Program workshop in Los Angeles, Merced was mentioned in the methodology formula session about why it didn't receive funding. The complex methodology that was presented is questionable and does not entail the correct factors. The panel indicated that had Merced County been an entitlement county, it would have received a large amount of allocation. Our housing staff member questioned the panel on the methodology used by HUD and asked if HUD is willing to take another look at the methodology. Our staff member further mentioned that two of the counties, Tulare and Solano Counties, are not entitlement counties but Visalia in Tulare and Vallejo in Solano are receiving direct funding. HUD staff response was that all cities were in entitlement counties and furthermore any revision of the formula would not be an option. The presenter concluded that they were sorry Merced City was not on the list but that Merced can apply for funding through the State of California Department of Housing and Community Development.

The fact that Merced was overlooked and did not receive any direct funding from HUD is going to be very devastating to our community. The important point that your staff did not consider is that all jurisdictions that receive direct funding from HUD can also apply for State funds. We simply are not getting our direct funding fare share from HUD. It is important to emphasize that

Congress also gave HUD authority to devise a different method of allocation for communities that are hit hardest by the foreclosure crisis. To demonstrate the impact the foreclosure crisis is having on Merced, please find enclosed a GIS generated map identifying the location of 1,000 homes either at auction, in bank ownership, or identified as "pre-foreclosure".

I am requesting that the City of Merced be included among eligible jurisdictions to receive its fair share of funding directly. HUD's methodology and formula is simply ignoring one of the hardest-hit communities in the nation. Ignoring Merced will only worsen our community's foreclosure crisis and the suffering of our residents.

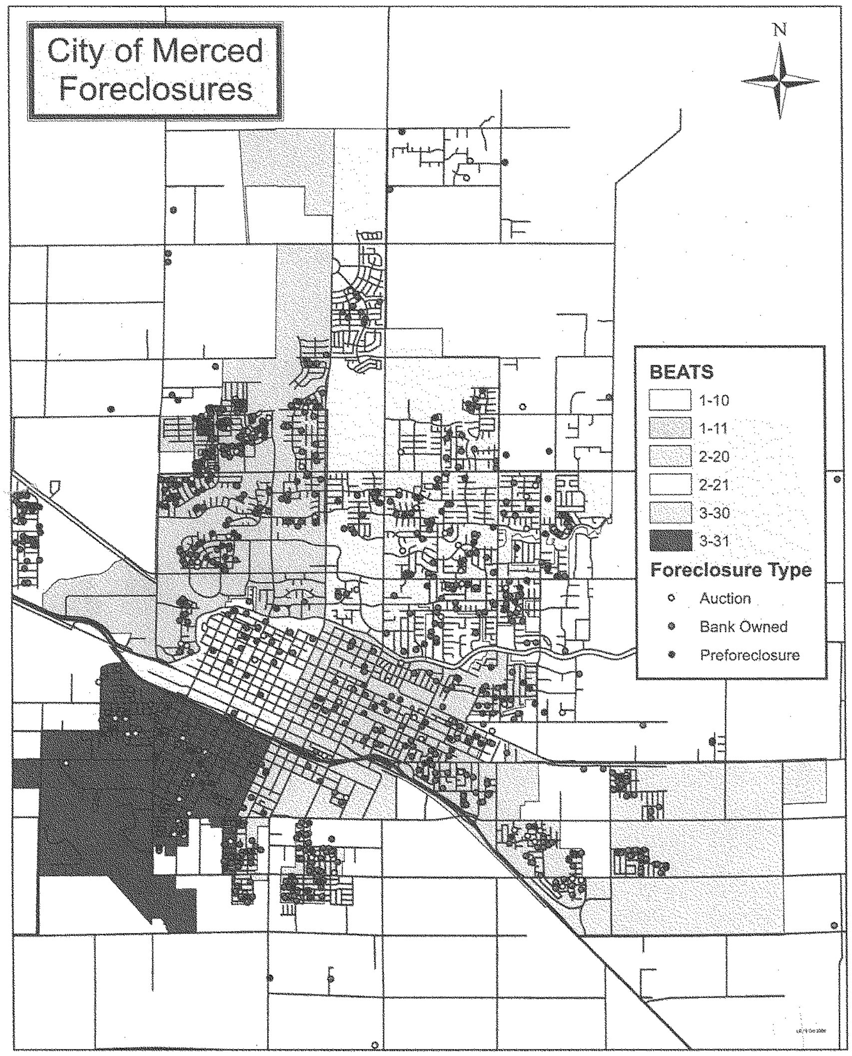
I look forward to your prompt response.

Sincerely,

Ellie Wooten
Mayor

Enclosure

Cc: Senator Barbara Boxer
Senator Dianne Feinstein
Congressman Dennis Cardoza
Merced City Council


City of Merced
Foreclosures
N
BEATS
1-10
1-11
2-20
2-21
3-30
3-31
Foreclosure Type
Auction
Bank Owned
Preforeclosure

O